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PETRO-CANADA ANNUAL REPORT 1997

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DELIVERING

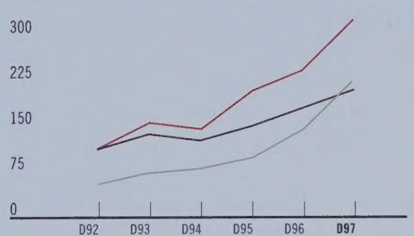
Petro-Canada is a major Canadian oil and gas company and a leader in the Canadian petroleum industry. An integrated company, it has a balanced portfolio of businesses spanning both the upstream and downstream sectors of the industry.

In the upstream, Petro-Canada explores for, develops, produces and markets crude oil, natural gas and natural gas liquids. In the downstream, Petro-Canada refines, distributes and markets petroleum products and related goods and services.

Petro-Canada's vision is to become the pre-eminent integrated oil and gas company in Canada through industry leadership in its core businesses.

DELIVERING GROWTH

Petro-Canada is delivering sustained profitable growth by rigorously focusing on its core businesses and investing in the best of its considerable inventory of opportunities. In the upstream, Petro-Canada is boosting natural gas production and replacing it with new reserves. Hibernia and Syncrude are adding oil volumes, while Terra Nova, other Grand Banks and international developments point the way to future success. In the downstream, Petro-Canada achieved record financial results in 1997, following a dramatic turnaround over the past five years. In the years ahead, a proposed joint venture will give Petro-Canada market leadership in Canada and growth opportunities in the northern United States.



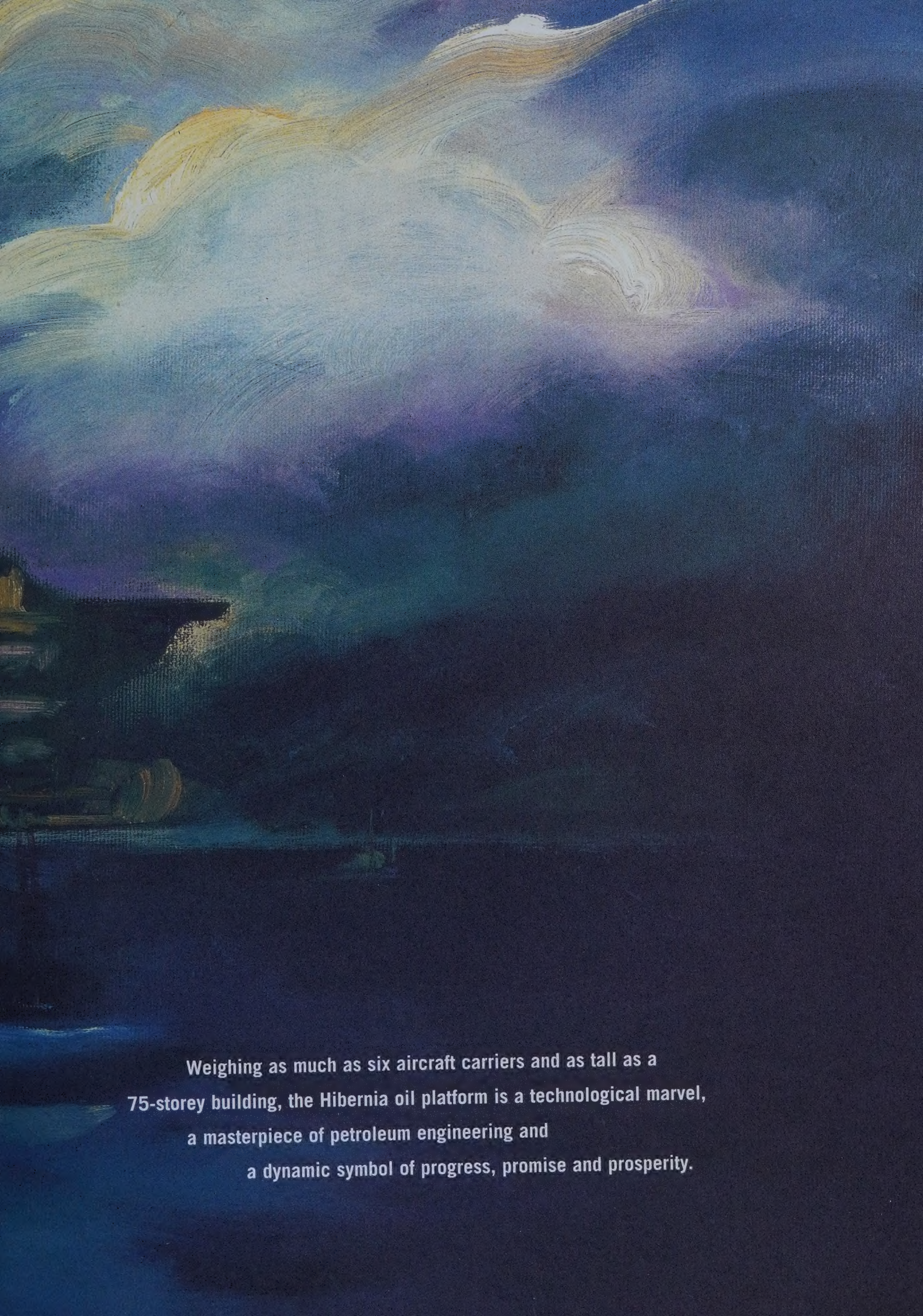
FIVE-YEAR SHARE PRICE PERFORMANCE
Changes in yearly closing values for Petro-Canada common shares compared with the Toronto Stock Exchange (TSE) 300 Index and the TSE Integrated Oils Sub-Index (INO).
During 1997, Petro-Canada shares appreciated 34 per cent.

- **PETRO-CANADA**
- **TSE 300**
- **INO**

Petro-Canada at a Glance

		BUSINESS DESCRIPTION
UPSTREAM	**WESTERN CANADA OIL & NATURAL GAS**	• Explores for, produces and markets crude oil, natural gas and natural gas liquids • Ranks 2nd in Canadian gas production with 760 million cubic feet per day • One of Canada's largest oil producers, with 1997 production of 83 100 barrels per day • Holds 12% interest in Syncrude oil sands plant
	GRAND BANKS OIL	• Explores for, develops, produces and markets Grand Banks oil • Owns 22% of the oil which has been discovered on the Grand Banks • 20% participant in the producing oil field at Hibernia • 29% interest in the Terra Nova oil development
	INTERNATIONAL	• Selectively invests in international oil opportunities • Operates development and exploration project in Algeria • Owns working interest in two fields offshore Norway
	NATURAL GAS LIQUIDS	• Extracts natural gas liquids from a gas trunk line at its straddle plant at Empress, Alberta • Markets natural gas liquids in Canada and the United States • Sells propane under the ICG brand
DOWNSTREAM	**REFINING**	• Converts crude oil into refined products, including gasoline, diesel, jet fuel and asphalt • Provides 18% of Canada's refining capacity for domestic markets
	MARKETING	• Markets refined products and services through a nationwide network of retail and wholesale outlets • Canada's second largest marketer, with a 17% share of the refined products market
	LUBRICANTS	• Manufactures and markets lubricants • Produces exceptionally pure base oils • A global supplier of high-quality specialty lubricants

997 OBJECTIVES	1997 HIGHLIGHTS	PLANS FOR 1998
• Expand gas business through focused exploration and development in the Alberta Foothills and northeastern British Columbia • Focus asset base through acquisitions and dispositions • Participate in Syncrude expansion and evaluate *in-situ* oil sands properties	• Record gas production of 760 million cubic feet per day • Added 419 billion cubic feet of gas equivalent reserves while reducing finding and development costs to $7.66 per barrel of oil equivalent • Divested non-core properties for proceeds of approximately $200 million • Record daily production from Syncrude of 24 900 barrels	• Continue gas growth strategy through value-adding investment activities • Begin phased reduction of conventional oil properties • Continue progress toward first-quartile finding and development costs • Participate in Syncrude expansion and continue *in-situ* oil sands evaluation
Commence Hibernia production Obtain regulatory approval for Terra Nova and initiate project Undertake seismic and drilling programs on other potential developments	• Hibernia gravity base structure and topsides successfully joined, towed to site and positioned • 60 000 barrels per day production from first two Hibernia wells • Exploration parcels secured	• Complete nine Hibernia wells • Begin Terra Nova construction • Conduct seismic program • Commence multi-well drilling program • Complete construction of trans-shipment terminal
Continue drilling program in Algeria Gain expertise and operating experience through strategic alliance with Norsk Hydro Identify new international opportunities	• Njord field commenced production in the fourth quarter • Gas/condensate discovery made in Algeria	• Drill four wells in Algeria and evaluate discoveries • Continue Norwegian participation • Pursue expanded international operations
Continuously improve cost structure and plant reliability Prepare ICG for stand-alone operations	• Strong earnings and cash flow performance from Empress facility • ICG functioning as a separate entity	• Continuously improve Empress plant reliability and cost structure • Investigate strategic alternatives in straddle plant and ICG businesses
Maintain reliability and high capacity utilization Continue focus on managing the controllable aspects of the business Identify opportunities to improve refining profitability, particularly in Eastern Canada	• Achieved record operating earnings of $143 million from the refining and supply business • Refinery utilization established a new record for Petro-Canada and led the industry • Moved Ontario supply and marketing teams to Oakville refinery to build integration and enhance decision making	• Maintain high capacity and utilization • Continue to optimize feedstock mix and drive toward low-cost competitive position • Complete joint venture with Ultramar Diamond Shamrock to capitalize on synergies between refinery pairs in central and eastern regions
Further increase throughput per site Continue roll-out of retail re-engineering initiatives at Company-controlled sites Identify opportunities to improve marketing profitability, particularly in Eastern Canada Clearly establish superiority of the Petro-Canada brand	• Achieved highest average retail throughput per site among the national integrateds' networks • Continued roll-out of modern, low-cost retail outlets including the SuperStop and SuperRelais	• Further increase retail throughput per site • Complete proposed joint venture and build on the strength of the Petro-Canada brand through an expanded retail and wholesale network
• Achieve design production capacity of the expanded facility • Develop new international and domestic markets • Address competitive concerns in the marketplace and deliver financial performance	• Achieved 33% increase in sales volumes at lower unit costs • Optimized feedstock mix and product yields from expanded facility	• Continue to develop high-margin markets • Fully realize potential of the lubricants expansion by maximizing production and increasing sales and earnings



Weighing as much as six aircraft carriers and as tall as a
75-storey building, the Hibernia oil platform is a technological marvel,
a masterpiece of petroleum engineering and
a dynamic symbol of progress, promise and prosperity.

DELIVERING FIRST OIL

First oil at Hibernia, on the Grand Banks offshore Newfoundland, signals the opening of an exciting, world-class, petroleum producing theatre in which Petro-Canada is a dominant player. Hibernia represents a significant, reliable and economical source of long-term oil supply for Petro-Canada and – coupled with Terra Nova and a number of high-potential future developments – provides a firm foundation for continued profitable growth. In the first quarter of 1997, Hibernia's five topsides modules were joined to the gravity base structure, a delicate and complex feat of engineering. The completed platform was then towed by nine of the world's largest tugboats to the drill site,

The Mattea, *one of two Hibernia shuttle tankers, delivers its first 850 000-barrel load of light, sweet crude to market early in 1998.*

315 kilometres southeast of St. John's, and secured into position.

By year end, the first two Hibernia wells were producing at a combined average rate of more than 60 000 barrels per day. The first well delivered more than 40 000 barrels per day when brought on stream – the highest initial flow rate of any oil well in Canadian history. For comparison, the average production rate for a conventional oil well in Western Canada is less than 100 barrels per day.

The third and fourth Hibernia wells were completed as oil producers in the first quarter of 1998. Seven additional wells – two oil producers, three water injectors, and two gas injectors – are planned for 1998, with peak production of 135 000 barrels per day expected in 1999. Petro-Canada's 20 per cent share of Hibernia is expected to deliver average daily production of 12 000 to 15 000 barrels in 1998, rising to 27 000 barrels in 1999.

The Hibernia field consists of two oil-producing formations – the Hibernia and the Avalon – with estimated reserves of 615 million barrels. Oil is produced via extended-reach drilling from the platform and transferred to two specially built shuttle tankers – each with a capacity of 850 000 barrels – via a system of subsea pipelines, buoys and flexible hoses.

The first full tanker load of Hibernia oil was shipped in late December and sold at a premium over North Sea Brent crude, with several additional deliveries in the first quarter of 1998. By the fourth quarter, Hibernia oil will be transported by shuttle tanker to a trans-shipment terminal under construction at Placentia Bay, Newfoundland. Petro-Canada has a 15 per cent interest in the terminal, which has an initial storage capacity of 1.5 million barrels.

Hibernia's goal is to be a top-quartile offshore performer, comparable to the best North Sea operators. By keeping per barrel costs to a minimum and implementing future plans to extend the life of the field and the platform, Hibernia will be economically viable even in a low oil-price environment.

Once peak production is established from the Hibernia formation, horizontal and multi-lateral wells may be used to increase production from the Avalon formation and extend the life of the field. Another strategy involves using the platform as an oil gathering and processing facility for nearby fields such as Mara, Nautilus and other future developments.

Highlights

(STATED IN MILLIONS OF CANADIAN DOLLARS)

	1997	1996	1995
FINANCIAL			
Earnings from operations (in 1995, before organizational restructuring charge)	$ 314	$ 247	$ 241
Net earnings	306	247	196
Cash flow	1 263	863	705
Per share (dollars)			
Earnings from operations (in 1995, before organizational restructuring charge)	1.16	0.94	0.98
Net earnings	1.13	0.94	0.79
Cash flow[1]	4.66	3.29	2.86
Dividends paid	0.26	0.20	0.20
Expenditures on property, plant and equipment and exploration	1 049	959	853
Return on capital employed (per cent)	6.8	6.2	5.9
Cash flow return on capital employed (per cent)	24.5	18.5	18.0
Debt	1 741	1 709	1 381
Debt to debt plus equity (per cent)	30.7	31.6	30.9
Debt to cash flow (times)	1.4	2.0	2.0
Operating return on capital employed (per cent) (in 1995, before organizational restructuring charge)	6.9	6.2	7.0
OPERATING			
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	95.1	97.3	79.4
Natural gas production, net before royalties, excluding injectants (millions of cubic feet per day)	760	712	546
Ethane and natural gas liquids production from straddle plants (thousands of barrels per day)	39.6	34.9	37.5
Proved oil and field natural gas liquids reserves, net before royalties (millions of barrels)	432	452	423
Proved natural gas reserves, net before royalties (trillions of cubic feet)	2.5	2.6	2.1
Refined petroleum product sales (thousands of cubic metres per day)	48.5	43.7	41.6
Average refinery utilization (per cent)	103	99	93

1 Cash flow from operations before changes in non-cash working capital items.

To Our Shareholders

Delivering first oil from Hibernia and a stellar refining and marketing performance were clear highlights of a truly landmark year for Petro-Canada. In posting our best-ever financial results, we set new records for many of the measures which drive long-term value creation in both the upstream and downstream businesses.

Our 1997 net earnings were $306 million, a $59 million increase over 1996. Cash flow was $1.263 million, up $400 million over 1996.

Petro-Canada's share price appreciated 34 per cent in 1997 and outperformed the Toronto Stock Exchange 300 Index by 21 per cent. Ours was one of the most heavily traded stocks in Canada, averaging 1.1 million shares per day. Our market capitalization – the number of outstanding shares multiplied by the share price – increased $1.8 billion during the year to more than $7.0 billion by year end.

Our strong financial performance gives us the flexibility to pursue many exciting growth opportunities in 1998 and beyond. We expect to invest approximately $1.2 billion in 1998, in our continued drive to grow and to deliver superior shareholder value.

THE PATH TO PRE-EMINENCE

Petro-Canada's vision is to become the pre-eminent integrated Canadian oil and gas company. In 1997, we moved rapidly along the path to pre-eminence in each of our core businesses.

In Western Canada, we exceeded our target of replacing 1997 natural gas production with new reserves, while producing record volumes and reducing finding and development costs. Earnings of $52 million from our investment in Syncrude nearly doubled over 1996.

On the Grand Banks, Hibernia was brought on stream ahead of schedule. By year end, the first two wells were producing and the first tanker load of crude oil had been sold. While Hibernia was capturing headlines and making history, Terra Nova was positioned for final government and owner approval, which came early in 1998. The Petro-Canada operated development is now proceeding, with first oil expected late in 2000. We also gained new oil production from Njord, our second Norwegian offshore field, and made a gas and condensate discovery in Algeria, followed by a more prolific discovery early in 1998.

JIM STANFORD
TOM KIERANS

Petro-Canada will continue to create value by increasing profitability through aggressive pursuit of the best new growth opportunities.

In the downstream, we set new records for refined petroleum product sales and average throughputs per retail site. Our refineries ran at full capacity and we reduced unit costs for the fifth consecutive year.

ADVANCING ALONG THE PATH

Our 1997 achievements provide the foundation on which we will deliver future success. We will continue to create value by increasing profitability through aggressive pursuit of the best new growth opportunities.

In Western Canada conventional oil and gas, we will invest $375 million in 1998, the bulk of which is focused on natural gas exploration and development.

Our share in the Syncrude expansion, which will double our production from the facility by 2007, will require $80 million in 1998. We will also invest $15 million to evaluate the development potential of our extensive oil sands leaseholdings in northern Alberta.

On the Grand Banks, we will spend more than $300 million for Hibernia, Terra Nova and a multi-well exploration drilling program. We are striving to deliver a new development in the region every two to three years.

We have earmarked $90 million for international activities in 1998.

In the downstream, we will invest $280 million to enhance the efficiency and profitability of our three refineries, our lubricants facility and to add more new-image retail sites.

Having rebuilt our refining and marketing business from the ground up over the past few years, we announced in early 1998 a strategic initiative that will take us to the next level of performance and profitability. Petro-Canada's proposed joint venture with Ultramar Diamond Shamrock will make the combined downstream venture the market leader in Canada and give us an entry into attractive markets and growth opportunities in the northern United States.

PEOPLE, PRODUCTIVITY AND PERFORMANCE

As we move to implement our growth plans, Petro-Canada is working to assure we retain the talented people who are helping us achieve success, while attracting the best new talent to our Company.

With substantial employee input, we have introduced an initiative designed to create and sustain a "personal best performance environment" at Petro-Canada. We are encouraging our employees to share in the vision of the Company and to want to strive toward achieving their personal best. By becoming the employer of choice in the eyes of our people, we believe Petro-Canada will gain a significant edge over our industry competitors.

ADDRESSING GLOBAL CLIMATE CHANGE

Delivering performance improvements in environment, health and safety is also essential for a pre-eminent company. We are particularly proud of our voluntary actions to reduce greenhouse gas emissions. Between 1990 and 1996, our actions eliminated more than one million tonnes per year of greenhouse gas emissions.

At the world conference on climate change in Kyoto, Japan, in December 1997, Canada accepted targets which require significant reductions in greenhouse gas emissions. Meeting those targets will be a challenge for all Canadians.

Petro-Canada looks forward to participating constructively with governments, industry, consumers and environmental groups to develop effective, but flexible action plans for Canada. We intend to take an active and positive role in the broad national debate that is required to shape Canada's response to Kyoto.

What will reducing greenhouse gas emissions mean for the oil industry and Petro-Canada? For the foreseeable future, oil and natural gas will remain the world's primary fuels. But we recognize that addressing climate change may require a long-term shift in the global energy mix, and we will evolve our business over time to remain a pre-eminent energy producer.

Our new venture with Iogen Corporation – to develop a cellulose-based, economic ethanol motor fuel – is but one example of how we are seeking out options for the future. By using straw, waste wood and other by-products of agriculture and forestry to make ethanol, carbon dioxide may be effectively recycled from the atmosphere, creating very low net greenhouse gas emissions.

ENHANCING CANADIAN LIFE

Delivering on our commitment to corporate responsibility is another vital link in achieving Petro-Canada's vision.

Our substantial community investment program is geared to enhancing the quality of Canadian life, particularly in the communities from which we earn our livelihood. The development of Canadian talent, innovation and expertise through education will be a key focus as we look ahead. We will continue to participate in meeting social needs – in education, health and community services – while remaining a strong supporter of arts, culture and the environment in Canada.

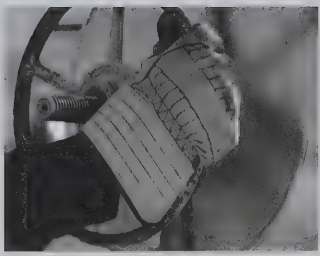
To conclude, on behalf of the board of directors and the executive, we would like to thank our employees, who are delivering value to Petro-Canada's businesses each day. on

James M. Stanford
President and Chief Executive Officer

Thomas E. Kierans
Chairman of the Board

DELIVERING SUCCESS

Petro-Canada's strategy in the Western Canada conventional upstream business is to create shareholder value by growing natural gas reserves and production over time. In 1997, success of the strategy was demonstrated by delivering record natural gas production, more than replacing it with new reserves, and lowering overall finding and development costs. The Company also committed to an expansion that will double production at the Syncrude oil sands plant over the next decade and tested large *in-situ* oil sands resources for potential development in northeastern Alberta. Petro-Canada has decided it can best maximize shareholder value by reducing its interests in



Petro-Canada produced an all-time-high average of 760 million cubic feet per day of natural gas in 1997, while lowering finding and developing costs.

conventional oil from mature fields in Western Canada and re-investing the proceeds in natural gas development. Conventional oil and gas exploration and development in Western Canada brought record reserves additions of 419 billion cubic feet of gas equivalent in 1997, the third consecutive year of improvement and a 50 per cent gain compared to 1995. Natural gas and gas liquids additions totaled 363 billion cubic feet of gas equivalent, also a record.

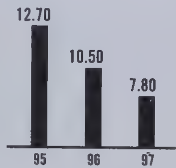
Delivering on its goal of increasing natural gas production, Petro-Canada produced an all-time-high average of 760 million cubic feet per day. Natural gas liquids produced at a record pace of 14 200 barrels per day. The Company participated in 299 wells, with a drilling success ratio of 89 per cent.

Despite rising costs for drilling, seismic, land and personnel, Petro-Canada reduced finding and development costs for proved reserves by 73 cents per barrel of oil equivalent, to $7.66. Natural gas finding and development costs were 70 cents per thousand cubic feet of gas equivalent. Three-year average finding and development costs have fallen from $12.70 per barrel of oil equivalent over 1993-1995 to $7.80 over 1995-1997.

Petro-Canada is building a competitive advantage through expertise in its core areas – which are characterized by liquids-rich natural gas and complex geology – and a high level of ownership in plants, pipelines and gathering systems.

FOOTHILLS GAS PLAYS ADD PRODUCTION, RESERVES

The Foothills area of Alberta, which accounted for one-third of Petro-Canada's 1997 natural gas production, is a key building block in the Company's Western Canada growth strategy. At Wildcat Hills, 48 kilometres west of Calgary, Petro-Canada has turned a dormant field into an exploration success story. In 1995, the Company's net gas production from the field, which had seen no drilling in 15 years, was 25 million cubic feet per day. The field's gas plant, running at just 45 per cent of capacity, was headed for closure.



■ THREE-YEAR AVERAGE FINDING & DEVELOPING COSTS (dollars per barrel of oil equivalent)

Capitalizing on its large, proprietary seismic database and geophysical expertise, Petro-Canada identified targets, added land, and began to drill. The Company has since added reserves of 100 billion cubic feet of gas equivalent in the field and boosted its gas production above 40 million cubic feet per day. Eight consecutive gas wells were successful at Wildcat Hills during 1997, with a ninth to be tied in by mid-1998. The gas plant is now expected to be at full capacity in 1999 and a pipeline expansion will boost Petro-Canada's production above 50 million cubic feet per day by the end of 1998. Five to eight wells are planned at Wildcat Hills in 1998.

Other key Foothills fields surround the Petro-Canada operated Hanlan-Robb gas plant, 250 kilometres west of Edmonton. Drilling in 1997 yielded six gas discoveries and proved reserves additions of 57 billion cubic feet of gas equivalent to Petro-Canada. A new sweet gas plant brought on stream in October is processing close to 40 million cubic feet per day of gas from the nearby Basing and Banshee fields.

DRILLING SUCCESS AT CLARKE LAKE

Petro-Canada invested $50 million in 1997 to boost working interests in properties at Clarke Lake in northeastern British Columbia. In the second quarter, the Company increased its working interest from 50 to 100 per cent in an area where three-dimensional seismic had identified 13 drillable prospects, and then moved rapidly to the drill bit. The first two wells are now producing, a third is ready to tie in and a fourth is being completed. Seismic indicates several new pool prospects in another permit area at Clarke Lake, where Petro-Canada also increased its land position through a recent asset purchase.

TECHNOLOGY BOOSTS PRODUCTION, LOWERS COSTS

The Wildcat Hills and Hanlan fields also demonstrate Petro-Canada's growing ability to drill successfully into geologically complex formations. In February, a Petro-Canada operated well in the Hanlan field established a new Canadian depth record for horizontal re-entry drilling, reaching 5 146 metres. By re-entering an existing vertical well and drilling horizontally, Petro-Canada quadrupled daily natural gas production to 24 million cubic feet.

A new sweet gas plant, added to the Petro-Canada operated Hanlan-Robb facility during 1997, is now processing in excess of 40 million cubic feet per day.

At Wildcat Hills in November, Petro-Canada drilled the first Canadian directional natural gas well using air instead of mud-based fluids. The well, completed 12 days ahead of schedule at a cost saving of almost $300 000, is now producing eight million cubic feet per day.

GAS MARKETING ENHANCED

Through an alliance concluded in 1997 with Enron Capital and Trade Resources Canada Corp., Petro-Canada is enhancing the value of its natural gas portfolio while reducing costs. One of North America's largest wholesalers of natural gas, Enron provides Petro-Canada with portfolio management expertise.

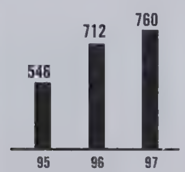
Petro-Canada continues to sell its gas directly to end users, utilities and marketers. The Company retains control of portfolio management decisions, gas production, pipeline commitments and customer relationships.

DISPOSITION PROGRAM ADDS VALUE

Petro-Canada is adding value to its Western Canada operations by disposing of high-cost, non-core properties and recycling the proceeds into core areas. A package of assets acquired for $6.50 per barrel of oil equivalent in 1996 was sold for $9.30 per barrel of oil equivalent in 1997. During the year, dispositions generated approximately $200 million, of which approximately $110 million was re-invested in core areas such as Clarke Lake, Hanlan, Wilson Creek and Ferrier.

SYNCRUDE INVESTMENT PAYING OFF

The Syncrude oil sands plant is an increasingly important source of production, earnings and cash flow for Petro-Canada. In 1997, the Company's 12 per cent share in Syncrude generated record daily production of 24 900 barrels of synthetic crude oil. Earnings from Syncrude and other oil sands were $52 million, compared to $27 million in 1996, while cash flow rose to $100 million from $45 million.



NATURAL GAS PRODUCTION
(millions of cubic feet per day)

The Syncrude oil sands plant is an increasingly important source of production, earnings and cash flow for Petro-Canada.

Syncrude owners, including Petro-Canada, are investing a total of $6 billion in mine and upgrader expansions over the next 10 years to double production and enhance the quality of the refined product, as well as debottlenecking to enhance processing performance. Increased production and technological advances are expected to reduce operating costs per barrel, from $13.37 in 1997 to $9 to $10 (in 1997 dollars) by 2007. Petro-Canada's share of Syncrude production is expected to rise to more than 50 000 barrels per day by 2007.

UNLOCKING OIL SANDS POTENTIAL

Seismic and core hole drilling have identified a large bitumen resource on Petro-Canada's extensive *in-situ* oil sands leases at MacKay River, southeast of the Syncrude plant. Development opportunities are being considered, pending the outcome of economic assessments, preliminary engineering, further seismic and exploratory drilling. Petro-Canada has a 100 per cent interest in the 49 280 acres which comprise the MacKay River lease. The Company is also exploring development potential on a second group of leases, where it operates in excess of 368 000 acres.

GAS LIQUIDS GENERATE CASH FLOW

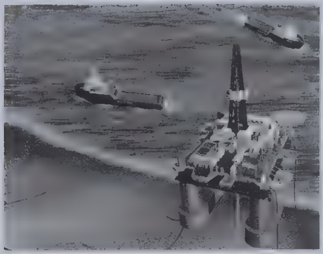
Petro-Canada's natural gas liquids business contributes cash flow and provides a hedge against fluctuations in natural gas prices. The liquids extraction and wholesale marketing operation had another strong year in 1997, despite higher feedstock costs. Production of natural gas liquids at the Empress straddle plant was up 6.9 per cent over 1996, while cash flow for the natural gas liquids business totaled $70 million.

Late in 1996, Petro-Canada announced it was considering several options for its ICG Propane business, including possible divestiture. In February 1998, ICG Propane Income Fund filed a preliminary prospectus with Canadian securities commissions in connection with an initial public offering of trust units. The fund was formed to acquire ICG Propane Inc. from Petro-Canada.

A procession of 240-ton trucks, each carrying its own weight in oil sand, winds its way toward processing facilities at the Syncrude plant in northern Alberta.

DELIVERING OFFSHORE

With Hibernia on stream, final approvals in place to proceed with Terra Nova and steady progress toward identifying the next major development, Petro-Canada is delivering leadership on the Grand Banks offshore Newfoundland. High exploration success rates, the size of oil reservoirs and advancements in offshore technology make the Grand Banks an attractive opportunity for profitable growth. In concert with Grand Banks developments, Petro-Canada's international operations are delivering new production from oil fields offshore Norway and from the Sahara Desert in North Africa.



Terra Nova, the second major Grand Banks development, is ready to proceed. Petro-Canada is the operator and largest interest holder in the Terra Nova field.

TERRA NOVA TO PROCEED

Petro-Canada and its co-owners are moving forward with Terra Nova, the second major Grand Banks development. The development received final regulatory and owner approvals in the first quarter of 1998. With a working interest of 29 per cent, Petro-Canada is the operator and the largest interest holder in the field, with estimated reserves of 370 million barrels of oil.

Organizational, engineering and procurement work on Terra Nova progressed throughout 1997. Highlights were the successful completion of public hearings and the award of contracts for the drilling rig and the design and construction of the steel hull for the floating production, storage and offloading vessel. Modifications to the rig, the *Transocean Explorer*, will be completed in the first half of 1999, followed by the drilling of pre-production wells. Petro-Canada expects first oil late in 2000.

The Terra Nova field, 35 kilometres southeast of Hibernia, is made up of three major fault blocks – the Graben, the East Flank and the undrilled Far East block. Oil will be produced by maintaining reservoir pressure through injection of sea water and re-injection of produced gas into the reservoir.

A total of 24 wells are planned for the Graben and East Flank: 14 producers, seven water injectors, and three gas injectors. The Graben and East Flank are expected to produce for 15 years, with a five-year average peak of about 115 000 barrels per day beginning in 2001. Petro-Canada's share of peak production will average about 33 000 barrels per day.

Field development will begin on the East Flank and continue into the Graben. Far East wells will be drilled early in the program to confirm the presence of hydrocarbons. If results warrant, up to 12 wells could be drilled into the Far East block.

Wellheads will be placed in glory holes, below the sea floor, for protection from scouring icebergs. Oil will flow to the surface through subsea pipelines and flexible hoses to the floating production facility. Tankers will transport the oil directly to market or to a trans-shipment facility in Placentia Bay, Newfoundland.

Petro-Canada and its co-owners will develop the Terra Nova field with state-of-the-art floating production technology.

Petro-Canada will participate in a multi-well exploration and delineation program in a quest to identify the next major development after Terra Nova.

Preliminary engineering in 1997 identified an opportunity to recover more Terra Nova oil, at higher production rates than originally envisioned, through horizontal drilling and increasing the size of the vessel and the fluid handling capacity of the facilities. By adopting these design changes and paying for rig modifications up front, the owners will reduce post start-up costs by $300 million. Pre-production investment by the owners will be about $2.0 billion.

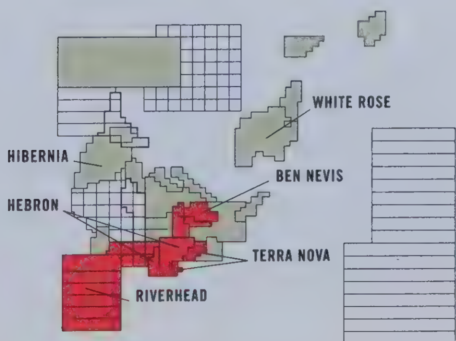
BEYOND TERRA NOVA

Petro-Canada is actively acquiring and interpreting seismic, high-grading prospects, and returning to the drill bit in a quest to identify the next major Grand Banks development after Terra Nova.

In 1997, Petro-Canada participated in a large three-dimensional seismic program on the Grand Banks, acquiring 48 000 kilometres. Included was a Petro-Canada operated survey over the Terra Nova and Hebron/Ben Nevis fields. Another large Petro-Canada operated survey is planned for 1998.

In December, Petro-Canada and three other companies acquired the right to explore on 330 000 acres on the Grand Banks for a shared work commitment of $98 million over the next five years. Three parcels are between Hibernia, Terra Nova and the Hebron/Ben Nevis fields, while the fourth is 35 kilometres northeast of Hibernia. An exploratory well at West Bonne Bay, in which Petro-Canada has a 10 per cent interest, reached total depth in December. Results are being evaluated.

Early in 1998, a consortium of companies including Petro-Canada secured agreements with drilling companies to bring two rigs to the Grand Banks for a multi-well exploration and delineation program. The first well will be drilled to delineate the 1981 discovery at Hebron; other locations include White Rose and an exploratory well on the Petro-Canada operated Riverhead licence, where a 400-square-kilometre, three-dimensional seismic program is planned in 1998.



GRAND BANKS EXPLORATION
Petro-Canada has built a dominant land position offshore Newfoundland.

- INDUSTRY LANDS
- EXPLORATION LICENCES–PHASE 1
- EXPLORATION LICENCES–PHASE 2
- PETRO-CANADA OPERATED

FIRST OIL FROM NJORD

Petro-Canada realized first production from the Njord oil field in 1997, while a well workover program has optimized production at Veslefrikk. Interests in the fields were acquired as part of a strategic alliance with Norsk Hydro, concluded in 1996, which will accelerate the development of Petro-Canada's light oil assets on the Grand Banks.

The Njord field, 450 kilometres north of Bergen, came on stream in just 30 months, the fastest execution time to date for a project of its size on the Norwegian continental shelf. Petro-Canada's 7.5 per cent share of daily production at Njord averaged 1 900 barrels during the fourth quarter of 1997 and is expected to reach peak production of 4 600 barrels per day early in 1999.

The Njord facility consists of a semi-submersible drilling and production platform and an anchored storage vessel. Fifteen wells are planned over the life of the field, some of which will be drilled horizontally to tap into additional segments of the highly faulted Njord reservoir.

At Veslefrikk, the expansion of water handling facilities and a successful well workover program increased Petro-Canada's daily net oil production by 400 barrels per day to 5 800 barrels per day in the second half of 1997.

Petro-Canada's share of production from Njord and Veslefrikk is expected to peak at 9 500 barrels per day in 1999-2000. The Company's share of proved and probable reserves in the fields, at year end 1997, was 29 million barrels.

Petro-Canada is building on the Norsk Hydro alliance through employee secondments and the regular exchange of technical information, ideas and concepts. In addition, Norsk Hydro personnel have been seconded to Petro-Canada's Terra Nova and Grand Banks asset teams. Petro-Canada opened an office in Oslo during 1997 to manage the Njord and Veslefrikk assets and evaluate future offshore opportunities.

Petro-Canada's share of production from the Njord field, which came on stream in the fourth quarter of 1997, is expected to reach 4 600 barrels per day in 1999.

Petro-Canada is evaluating the commercial potential of two recent gas and condensate discoveries in southeast Algeria.

ALGERIA DRILLING DELIVERS DISCOVERIES

Petro-Canada and SONATRACH, the Algerian national oil company, are assessing the commercial potential of two recent discoveries in the Sahara Desert at Hassi Imoulaye and Timellouline. The Hassi Imoulaye well, 1 000 kilometres southeast of Algiers, encountered gas and condensate in four different zones and tested at cumulative stabilized daily rates of 64 million cubic feet of natural gas and 5 140 barrels of condensate. It is the third of five exploratory wells Petro-Canada has committed to drill on the two-million-acre Tinrhert Block. The Timellouline well, which is not part of the five-well drilling commitment, tested at cumulative stabilized daily rates of 117 million cubic feet of natural gas and 5 280 barrels of condensate early in 1998.

Drilling of the fourth commitment well is underway and Petro-Canada expects to drill four additional wells in 1998.

Petro-Canada's first discovery, in 1994, led to development of the Tamadanet field, which began producing in the second quarter of 1996. The Company's share of daily production from Tamadanet during 1997, before royalty and production sharing, averaged 5 700 barrels, down from 8 800 barrels in the second half of 1996, due to increased water production from one of three wells in the field. Completion of enhanced water disposal and gas lift facilities in early 1998 will sustain field performance.

Petro-Canada expects to drill four wells on the two-million-acre Tinrhert Block in 1998.


Super

DELIVERING PERFORMANCE

Five years of steady improvement in Petro-Canada's refining and marketing operations enabled it to capture opportunities presented by a buoyant market for refined petroleum products in 1997. Earnings from downstream operations were a record $225 million, up $95 million from 1996, and the Company achieved new highs in refinery utilization, refined petroleum product sales, and site throughputs. Unit costs fell to 6.4 cents per litre from 6.6 cents per litre in 1996. Petro-Canada's continued focus on business process improvement enabled its refineries to run at full capacity in 1997. Marketing programs generated record retail sales volumes, growth in

Petro-Canada is building on the strength of its brand and its connection with customers as Canada's Gas Station.

non-petroleum revenue and higher average retail site throughputs than at its integrated competitors. Petro-Canada plans to build on this firm foundation of business success through a proposed joint venture with Ultramar Diamond Shamrock, which will make the new partnership the clear Canadian downstream leader and a strong competitor in the northern United States.

REFINERIES RUNNING EFFICIENTLY

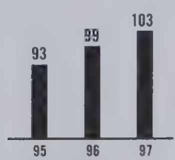
Petro-Canada's objective in refining is to be a low-cost producer of petroleum products. Since 1992, the Company has focused on increasing the productivity, reliability and flexibility of its three refineries and lubricants plant.

By effectively managing the controllable aspects of the business, Petro-Canada's refining operations made a solid contribution to downstream earnings in 1997. Operating earnings from the refining and supply business were $143 million, up $56 million from 1996. Refined petroleum product sales of 48 500 cubic metres per day were 11 per cent higher than in 1996.

Petro-Canada's refineries ran at full capacity in 1997 – the fifth consecutive yearly improvement in utilization. The refineries processed an average of 46 700 cubic metres of crude oil per day during 1997, a four per cent increase over 1996 volumes. Higher overall throughputs at the Edmonton, Oakville and Montreal refineries contributed to reduced costs per unit processed.

At 103 per cent utilization, crude processed exceeded the rated capacity of the facilities, despite unplanned shutdowns at Edmonton and Oakville. In each of these incidents, the swift response of personnel resulted in minimal downtime and lower-than-expected costs.

Demonstrating the value of integration in refining and marketing, Petro-Canada used its considerable heavy crude oil processing capacity to meet strong asphalt demand in eastern Canada, while benefiting from wider price spreads between heavy and light crude feedstock.



AVERAGE REFINERY UTILIZATION (per cent)

Petro-Canada's retail throughputs per site were the highest among the national integrated companies' total networks in 1997.

Moving the Ontario supply and marketing teams to the Oakville refinery is another way Petro-Canada is building integrated decision-making capability. Similar moves are planned to the Company's refining sites in Montreal in 1998 and Edmonton in the next few years.

The Company will invest $141 million in its refining and supply business during 1998, including $25 million to expand the capacity of a catalytic cracker at the Montreal refinery by 11 000 barrels per day and improve energy efficiency by up to five per cent.

LUBRICANTS FACILITY BOOSTS PRODUCTION

In its first full year of operation, Petro-Canada's expanded lubricants facility in Mississauga ramped up production while increasing sales volumes to 622 million litres, a 33 per cent improvement over 1996. In response to international competitive pressures, Petro-Canada is taking action to improve the profitability of its lubricants business by further reducing basestock production costs. In 1998, the lubricants business will continue to focus on managing costs and developing new markets.

BRAND STRENGTH BOOSTS RETAIL SALES

Operating earnings from marketing were a record $82 million in 1997, nearly double the previous year.

Annual throughputs averaged 3.4 million litres per site at Petro-Canada's approximately 1 780 retail locations, up almost 10 per cent from 3.1 million litres per site in 1996. Retail throughputs per site were highest among the national integrated companies' total networks in 1997.

Petro-Canada is building on the strength of its brand and its connection with customers as Canada's Gas Station. The number of customers earning rewards through the Petro-Points loyalty program continued to grow in its third year, surpassing three million households. More than 40 per cent of retail petroleum product sales were associated with Petro-Points. Petro-Canada continues to enhance Petro-Points by creating more options to redeem points for rewards.

New-image sites distinguish Petro-Canada from the competition with their inviting, modern look and are economical to operate and maintain.

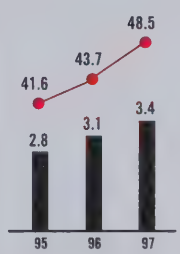
The Company continues to revitalize its retail network with its new-image site design. In addition to distinguishing Petro-Canada from the competition with their inviting, modern look, the new-image sites cost less to operate and maintain. At year end, approximately 10 per cent of the Company's retail sites had been converted to the new design.

Expanding the Company's convenience store network is another important element of marketing strategy. SuperStops are among the Company's highest-volume pumpers, with the top locations generating annual throughputs of 15- to 20-million litres. The first SuperRelais site opened in Montreal in 1997. By the end of 1998, Petro-Canada will have a total of 87 SuperStop and SuperRelais locations.

Petro-Canada actively monitors consumer trends and strives to meet the changing demands of the mobile consumer. In 1997, Petro-Canada piloted, at selected sites, a portable terminal that allows full-service customers to make debit and credit card transactions without leaving their vehicles. The technology represents another step forward in guest convenience and capitalizes on the trend to increasing consumer debit card purchases. The terminals will be available to Petro-Canada dealers by the end of 1998.

JOINT VENTURE TO PROVIDE DOWNSTREAM GROWTH

Having progressively rebuilt its refining and marketing business into a pacesetting performer over the past five years, Petro-Canada plans to deliver growth, operating synergies and increased profitability through a proposed partnership with Ultramar Diamond Shamrock.



DAILY SALES OF REFINED PRODUCTS (thousands of cubic metres)

RETAIL THROUGH-PUT PER SITE (millions of litres per year)

The joint venture will capitalize on synergies created by the integration of refining and marketing assets.

Petro-Canada will contribute all of its downstream assets to the joint venture, for a 64 per cent economic interest and 51 per cent voting interest. Ultramar Diamond Shamrock will contribute its assets in Canada, Michigan and several New England states.

With crude oil capacity of 500 000 barrels per day from five refineries, a world-class lubricants facility, more than 3 500 retail service stations, 200-plus cardlock outlets and a leading home heating business, the joint venture will be the largest Canadian downstream operation, well positioned to leverage the marketing power of the Petro-Canada brand. It will operate two of the most efficient refineries in North America – in Saint-Romuald, near Quebec City, and Edmonton.

In the U.S., its assets will include operations in five New England states and an integrated refining/marketing business in Michigan, consisting of a centrally located refinery and 400 retail sites. The Michigan refinery, at Alma, has a daily crude oil capacity of 55 000 barrels, while the retail sites, operating under the Total brand, have average annual throughputs of four million litres per site.

The joint venture will turn its superior operational position into industry-leading profitability by taking advantage of synergies created by the integration of assets, particularly between the pairs of refineries in Quebec and Ontario/Michigan. It will provide greater flexibility in the use of feedstocks, improved purchasing power and a lower overall cost structure.

Formation of the joint venture is subject to completion of due diligence, definitive documentation, and the approvals of regulatory authorities and the boards of Petro-Canada and Ultramar Diamond Shamrock. Petro-Canada anticipates the transaction will close in mid-1998.

The joint venture will include the Saint-Romuald refinery near Quebec City, one of North America's most efficient, with daily crude oil capacity of 160 000 barrels.

DELIVERING LEADERSHIP

Petro-Canada is delivering on its responsibilities as a major Canadian corporation by continuing to enhance its stewardship of the environment, by improving its health and safety performance, by strengthening long-term partnerships in the community, and by building a supportive work environment for its people. Delivering performance improvements in environment, health and safety is a key component of operational excellence at Petro-Canada. In 1997, Petro-Canada adopted a new environment, health and safety strategy designed to contribute to the overall success of the business by:

New Total Loss Management standards provide the framework by which Petro-Canada is delivering enhanced environment, health and safety performance.

- ensuring performance at a level consistent with the Company's vision of being Canada's pre-eminent integrated oil and gas company;
- actively collaborating with industry and government to develop policies that recognize the needs of all stakeholders; and,
- integrating environment, health and safety services and practices to build competitive advantage.

The strategy is supported by a set of national Total Loss Management standards covering: environment; health and safety; risk assessment; loss prevention; process hazards management; process reliability; and security management.

Through rigorous application of the standards, Petro-Canada expects to minimize incidents and business risks while enhancing operational reliability. Following their introduction in mid-1997, the standards formed the basis of three audits measuring upstream and downstream operations. Seven audits are planned in 1998.

REDUCING THE IMPACT OF OPERATIONS

Petro-Canada is taking action to further reduce the impact of its operations on the environment, to comply with regulatory requirements and to meet the expectations of its customers and the Canadian public.

Environmental expenditures in 1997 were approximately $139 million, compared with $135 million in 1996.

In the upstream, for example, the Company is working to reduce flaring – the controlled burning of solution gas resulting from oil production. In 1997, Petro-Canada actively participated with the Canadian Association of Petroleum Producers and Alberta's Clean Air Strategic Alliance to establish best practices guidelines on flaring. In 1998, an employee team will identify sites where significant reductions in flaring can be achieved through existing technology, and investments in facility upgrades and employee training are continuing.

In the downstream, Petro-Canada will invest more than $50 million in 1998 to reduce the benzene content of gasoline produced at its major downstream facilities. In 1997, the Company took advantage of a scheduled maintenance shutdown to install a pre-fractionation tower that will reduce the benzene content of gasoline produced at the Edmonton refinery by 40 per cent by the end of 1998. Through investments at the Edmonton and Montreal refineries, Petro-Canada has lowered the

WHERE WE STAND ON CLIMATE CHANGE

- Petro-Canada recognizes and shares the public concern about global climate change.
- We support responsible action by all sectors of society to address the issue.
- Petro-Canada will be a leader in the Canadian oil and gas industry in seeking solutions.
- Petro-Canada is an active participant in the Voluntary Challenge and Registry Program.
- We are committed to achieving ongoing improvements in energy efficiency of one per cent per year.

sulphur content of its on-road diesel fuels, and is working with the Government of Canada and the Canadian Petroleum Products Institute to establish new standards for sulphur and olefin content.

In addition, an internal task force is testing advanced electronic monitoring technology to improve the Company's capability to prevent, detect and respond to leaks from underground storage tanks at retail sites. The result should be fewer and less serious leaks and improved fuel inventory management.

TACKLING GREENHOUSE GAS EMISSIONS

The burning of fossil fuels, and other human activities, produce greenhouse gases such as carbon dioxide, which are thought to contribute to the warming of the earth's climate.

Petro-Canada recognizes and shares public concern on global climate change and is taking decisive, voluntary action to address this issue. In 1996, Petro-Canada limited its increase in emissions of carbon dioxide equivalent to seven per cent, despite production growth of 22 per cent in the upstream and 14 per cent in the downstream. Since 1990, Petro-Canada has taken initiatives which have eliminated greenhouse gas emissions equivalent to 1.06 million tonnes of carbon dioxide a year.

Addressing the climate change issue may require a long-term shift in the global energy mix and Petro-Canada is taking steps to evolve its business accordingly. The Company's joint venture with Iogen Corporation, to produce ethanol motor fuel from waste by-products of agriculture and forestry, is a first step. Over the full ecological cycle, the technology reduces carbon dioxide emissions by more than 90 per cent, compared with the production and use of gasoline. Petro-Canada plans to fund a research and development program to test the commercial potential of the technology, followed by the construction of a demonstration plant in Ottawa.

WORKING WITH STAKEHOLDERS

To better understand and respond to changing societal needs, Petro-Canada works closely with diverse stakeholder groups, especially in areas affected by its operations. In 1997, the Company:

- consulted with First Nations groups affected by exploration activity in northeastern British Columbia and a proposed oil sands project near Fort McMurray, Alberta. Economic benefits,

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- We are evaluating technology and other options for future action which will take us beyond our current commitment levels.
- We will encourage efficient use of energy by our customers and suppliers.
- We will work with governments and other stakeholders to develop a balanced action plan that effectively addresses climate change while safeguarding Canada's interests.
- We recognize that addressing climate change may require a long-term shift in the global energy mix. We will evolve our business over time to remain a pre-eminent energy producer.
- We believe that Canada can most effectively address climate change through concerted voluntary initiatives, innovation and flexible approaches over time.

employment for local communities and respect for traditional lands were an important part of the consultations;

- worked with government, community and environmental organizations in Ontario to address potential environmental issues at the Mississauga lubricants plant and the Oakville refinery;
- signed a collaborative agreement with Quebec's Department of Environment and Wildlife and the Montreal Urban Community to minimize the environmental impacts of the Company's Montreal refinery by reducing industrial waste and the use of water.

HEALTH AND SAFETY PERFORMANCE

Petro-Canada is continuously improving its health and safety record, as key performance measures indicate. Since 1995, the employee recordable injury frequency per 200 000 person-hours has fallen nearly 50 per cent, to 0.98. The employee disabling injury frequency per 200 000 person-hours has also fallen, to 0.31, from 0.59 in 1995.

Petro-Canada is working to minimize the impact of on- and off-the-job injuries on business productivity. The Company's Managed Rehabilitation Care initiative, which allows employees with short-term disabilities to remain on the job or re-enter the workforce more quickly, has produced savings in excess of $1 million in each of the past three years. In 1998, increased emphasis will be placed on addressing off-the-job injuries.

MEETING COMMUNITY NEEDS

Petro-Canada is building meaningful partnerships with the non-profit sector to help meet the needs of Canadian communities. In 1997, community investments totaled $3.8 million, with special attention to health, education and community service organizations.

Petro-Canada emphasizes partnerships that bring multiple benefits to the community, particularly in locations where the Company has substantial operations. For example, the Company's sponsorship of a recycling program with the Waterford Hospital Foundation in St. John's creates employment for people with mental health problems, builds public awareness of the hospital and provides an environmental service to the community. In Calgary, Petro-Canada and the Canadian Cancer Society created "Comfort Heart Month" and formed a sponsorship team for Canada's first city-wide initiative to raise money and awareness for cancer research.

The development of Canadian talent, expertise and innovation through education is a focus of Petro-Canada's community investment. Key initiatives which reflect this focus include:

Imagine
A Caring Company

An active participant in the Imagine campaign, Petro-Canada contributes at least one per cent of pre-tax earnings to Canada's non-profit sector. Employee volunteerism and in-kind donations further strengthen Petro-Canada's role as a caring company.

- the Petro-Canada Young Innovator Awards Program, to promote and support outstanding young faculty at Canadian post-secondary institutions whose innovative research has the potential to provide significant benefit to society;
- chairs for Women in Science and Engineering at Memorial University and the University of Calgary to attract, retain and promote women in these fields;
- financial support to the Harmony Foundation's annual summer environmental institute for Canadian and international educators;
- the Petro-Canada Olympic Torch Scholarship Fund, which supports athletes and coaches at post-secondary institutions. In the 10 years since it was established to commemorate Petro-Canada's sponsorship of the 1988 cross-Canada Olympic Torch Relay, the fund has provided more than $2.5 million to 900 recipients across Canada.

Petro-Canada's community investment activities are strengthened by its people. Employee donations to assist victims of the ice storm in Quebec and Ontario and flooding in Manitoba, and to help rebuild a women's shelter in Calgary following a fire, were matched by the Company. Employee and corporate donations to the United Way exceeded $1 million.

In addition, nearly 300 non-profit organizations received grants in 1997, under a Company program which recognizes the voluntary efforts of employees and retirees in the community.

PRE-EMINENCE THROUGH PEOPLE

Petro-Canada is committed to creating and sustaining a supportive work environment which encourages employees to fully develop their skills, talent and experience, while contributing to the achievement of business goals. In 1997, a comprehensive process was introduced to promote employee well-being and business productivity through performance support and capability development.

By becoming an employer of choice in the eyes of its people, Petro-Canada seeks to retain its valuable employees and attract the best new people to the Company. Petro-Canada is striving to provide a work environment where employees:

- can do meaningful and productive work;
- clearly understand the Company's direction and how their work contributes to business success;
- are encouraged to take well-calculated risks and are recognized for their contribution;
- have a real opportunity for learning and growth.

Management's Discussion and Analysis

The Management's Discussion and Analysis provides management's analysis of the financial condition and results of operations of Petro-Canada for the year ended December 31, 1997, compared with the year ended December 31, 1996. The analysis focuses on strategies and performance as they relate to the factors, or value drivers, that management considers important to Petro-Canada's financial performance and ability to create superior shareholder returns.

To achieve superior returns, Petro-Canada follows the principles of value-based management, assessing the value-creating potential of existing businesses and new opportunities and allocating resources to those offering the greatest potential. The Company evaluates the performance of all its assets on an ongoing basis and divests or acquires assets where it believes it can improve the capability of its business portfolio to create value. In doing so, the Company strives to be 'Best In Class' in each of its major businesses.

A central component of Petro-Canada's evaluation process is determining and managing those controllable factors that drive value in the organization. The management of these 'value drivers' allows the Company to assess its relative performance and optimize its business portfolio to achieve its objective of superior shareholder returns. A three-year analysis of the Company's performance, as measured by these value drivers, is summarized in Petro-Canada Value Drivers at a Glance on pages 36 and 37. A glossary of financial terms and ratios appears on the inside back cover of the annual report.

RESULTS OF OPERATIONS

Petro-Canada's financial results are significantly influenced by business environment factors including crude oil and natural gas prices, refined product margins, the Canadian dollar exchange rate and the demand for natural gas and refined petroleum products.

BUSINESS CONDITIONS IN 1997

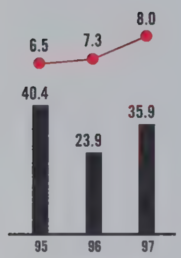
The prices of crude oil and natural gas have a major effect on the financial results of the upstream oil and gas sector. During 1997, the price of West Texas Intermediate (WTI) crude oil averaged U.S.$20.62 per barrel on the New York Mercantile Exchange (NYMEX), a decrease of 6.4 per cent from the 1996 average price of U.S.$22.03. After reaching a high of U.S.$26.62 per barrel in early January, the WTI price declined to U.S.$17.64 per barrel by year end. The decline was caused by a slackening of demand and increasing supply, which was exacerbated by the onset of the financial and economic crisis in Asia, and OPEC's announced increase of 2.5 million barrels per day in its production ceiling, effective January 1, 1998.

The impact of the decline in international oil prices on Canadian prices was partially offset by the steady decline of the Canadian dollar exchange rate relative to the U.S. dollar during 1997. The value of the Canadian dollar fell from a high of 74.89 U.S. cents on January 22 to 69.48 U.S. cents by December 29, its lowest value in almost 12 years. As a result of these two factors, the Canadian price for benchmark light crude oil averaged $27.83 per barrel, down 5.2 per cent from 1996. Similarly, the price for benchmark Bow River heavy crude oil declined in 1997 to $21.14 per barrel from $25.02 in 1996. Due to the widening international light/heavy oil price differential and Canadian heavy crude oil production growing at a faster pace than demand, the domestic crude oil price differential widened to $6.74 per barrel from $4.35 in 1996.

Colder-than-normal weather in North America during the first quarter of 1997 led to rising natural gas prices, particularly in the United States. A strong economy and gas injection activity to refill storage lent support to prices throughout the April to October period. Export pipeline capacity, however, continued to constrain Canadian gas producers from benefiting fully from favourable U.S. gas prices. The price of natural gas at the plant gate in Alberta averaged $2.05 per thousand cubic feet in 1997, up more than 20 per cent from $1.70 in 1996.

In the downstream industry, the key external factors affecting financial results are the pattern of changes in and the volatility of crude oil and feedstock prices, overall demand for refined petroleum products, the utilization of refining and marketing capacity and the degree of market competition.

Strong growth in refined petroleum product sales, combined with improved refining and marketing margins, were key factors in the downstream industry's financial performance in 1997. Refined petroleum product sales in Canada grew approximately 3.8 per cent in 1997, compared with 3.5 per cent in 1996. Diesel and motor gasoline sales were major contributors to the increase in overall refined product sales.



● RETURN ON EQUITY
(per cent)
■ TOTAL RETURN
(per cent)

CORPORATE PERFORMANCE

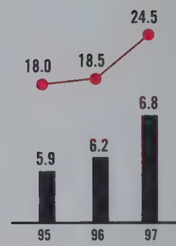
< SHAREHOLDER VALUE

- total returns to shareholders averaged 33.4% over the past three years (including dividend reinvestment)
- return on equity increased to 8.0% in 1997
- quarterly dividend increased 60% from $0.05 to $0.08 per share in 1997
- 1997 average daily trading volume was 1.1 million shares
- Objective – to deliver superior shareholder returns over the long term

FINANCIAL VALUE DRIVERS

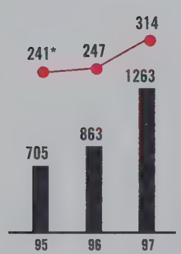
> RETURN ON CAPITAL EMPLOYED AND CASH FLOW RETURN ON CAPITAL EMPLOYED

- return on capital employed increased to 6.8% in 1997, while cash flow return on capital employed increased to 24.5%
- downstream ROCE was 11.1% in 1997
- capital intensive projects, such as Hibernia, will begin to generate significant returns in 1998 and beyond
- Objective – to increase ROCE to a minimum of 10% over the next five years



● CFROCE
(per cent)
■ ROCE
(per cent)

More information can be found on page 39



● OPERATING EARNINGS
($ millions)
■ CASH FLOW FROM OPERATIONS
($ millions)
*before organizational restructuring charges

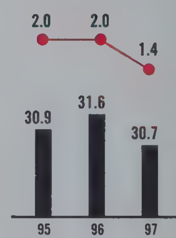
More information can be found on page 39

< OPERATING EARNINGS AND CASH FLOW

- best-ever financial performance in 1997
- operating earnings have grown at a compound annual rate of 13% over the past three years, while cash flow has grown at a compound annual rate of 22%
- record earnings driven by strong performance in both the Upstream and Downstream
- cash flow growth in 1997 reflects lower current income taxes and higher earnings

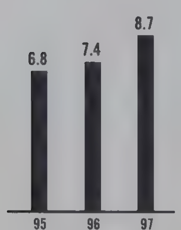
> DEBT TO CASH FLOW AND DEBT TO DEBT PLUS EQUITY

- the Company has established conservative leverage targets to ensure financial strength and flexibility
- target maximums include debt to cash flow ratio of 2.0 and debt to capital ratio of 30%
- debt to cash flow ratio improved to 1.4 times in 1997 and debt to capital was reduced to 30.7%
- Objective – to maintain a strong balance sheet that will allow financial flexibility in pursuing growth initiatives



● DEBT TO CASH FLOW
■ DEBT TO DEBT PLUS EQUITY

More information can be found on page 47



■ INTEREST COVERAGE RATIO

More information can be found on page 47

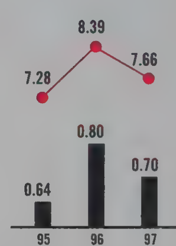
< INTEREST COVERAGE

- measures the extent to which interest charges are covered by earnings before interest, taxes, depreciation, depletion and amortization
- interest coverage ratio improved to 8.7 in 1997, up from 7.4 in 1996
- Objective – to maintain an interest coverage ratio consistent with integrated peers rated A- or better

UPSTREAM VALUE DRIVERS

> FINDING AND DEVELOPMENT COSTS (Western Canada conventional oil and gas)

- reduced 1997 finding and development costs for conventional proved reserves by 9% to $7.66 per barrel of oil equivalent, despite higher industry factor costs
- gas finding and development costs decreased $0.10 to $0.70 per thousand cubic feet in 1997
- Objective – to attain first-quartile finding and development costs



● F&D TOTAL
($/barrel of oil equivalent)
■ F&D GAS
($/thousand cubic feet equivalent)

More information can be found on page 40

● **NATURAL GAS REPLACEMENT**
(per cent)

■ **TOTAL RESERVES REPLACEMENT**
(per cent)

More information can be found on page 40

< RESERVES REPLACEMENT
(Western Canada conventional oil and gas by exploration and development)

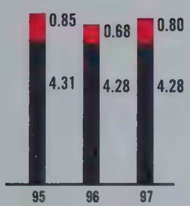
- improved reserves replacement by exploration and development to 86% of production, up from 70% in 1996
- added a record 42 million barrels of oil equivalent in Western Canada in 1997
- replaced 116% of 1997 natural gas production, adding 322 billion cubic feet
- Western Canada drilling success rate was 89% in 1997, up from 87% in 1996
- Objective – Western Canada drilling will focus on natural gas reserves and production growth

> PRODUCTION

- daily barrels of oil equivalent production has grown at a compound rate of 10% over the past three years
- increased production in 1997 despite net divestment of Western Canada non-core assets which produced 7 400 boe per day
- natural gas volumes increased to 760 mmcf/d in 1997, from 712 mmcf/d in 1996 and 546 mmcf/d in 1995
- December 1997 production was 176 000 boe per day
- Objective – to increase oil reserves and production on the Grand Banks, international and oil sands, and to increase natural gas reserves and production in Western Canada

■ **PRODUCTION**
(thousands of barrels of oil equivalent per day)

More information can be found on page 40



UPSTREAM
■ **OVERHEAD COSTS**
($/barrel of oil equivalent)

■ **OPERATING COSTS**
($/barrel of oil equivalent)

More information can be found on page 41

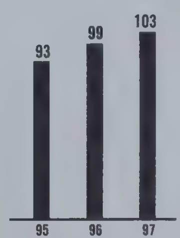
< UPSTREAM OPERATING AND OVERHEAD COSTS

- operating costs were unchanged at $4.28 per barrel of oil equivalent, despite industry cost pressures
- Objective – to attain first-quartile operating and overhead costs

DOWNSTREAM VALUE DRIVERS

> REFINERY UTILIZATION

- capacity utilization has increased 10 percentage points during the past three years
- refineries ran full in 1997, leading the Canadian integrated oil companies
- heavy crude oil represented 23% of the crude slate during 1997
- Objective – to be a low-cost refiner by maintaining industry-leading asset utilization rates



■ **AVERAGE REFINERY UTILIZATION**
(per cent)

More information can be found on page 41

● **DAILY SALES OF REFINED PRODUCTS**
(thousands of cubic metres)

■ **RETAIL THROUGHPUT PER SITE**
(millions of litres per year)

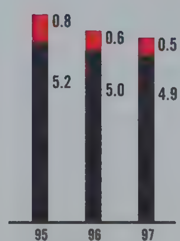
More information can be found on page 42

< PETROLEUM PRODUCT SALES/RETAIL THROUGHPUT PER SITE

- petroleum product sales grew 11% during 1997, the highest growth rate amongst the Canadian integrated oil companies; retail sales grew almost 7%
- retail throughput per site increased for the seventh consecutive year to 3.4 million litres per site in 1997
- retail throughput per site has grown at an annual compound rate of 12% over the past seven years
- Objective – to be a low-cost provider of products and services through increased marketing efficiency

> DOWNSTREAM OPERATING AND OVERHEAD COSTS

- in 1997, operating and overhead expenses per litre fell for the fourth consecutive year (11% reduction from 1995)
- the decline is the result of continued process improvement and expense management
- Objective – to continue to aggressively manage controllable expenses



DOWNSTREAM
■ **OVERHEAD COSTS**
(cents/litre)

■ **OPERATING COSTS**
(cents/litre)

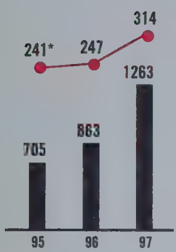
More information can be found on page 42

SENSITIVITIES AFFECTING NET EARNINGS AND CASH FLOW

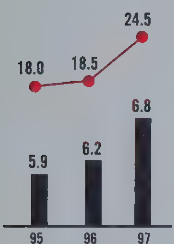
The following table shows the after-tax effects that changes in certain factors would have on Petro-Canada's 1997 net earnings and cash flow had these changes occurred. These calculations are based on external business conditions and production and sales volumes realized by the Company in 1997.

FACTOR	1997 AVERAGE	INCREASE	APPROXIMATE INCREASE (DECREASE) IN NET EARNINGS[1]	CASH FLOW[1,2,3]
		(MILLIONS OF CANADIAN DOLLARS)		
UPSTREAM SECTOR[4]				
WTI benchmark crude oil price	U.S. $20.62 (per barrel)	U.S. $1.00 (per barrel)	16	28
Price received for natural gas	$1.85 (per thousand cubic feet)	$0.10 (per thousand cubic feet)	10[5]	16[5]
Production of conventional crude oil	43 300 (barrels per day)	1 000 (barrels per day)	2	5
Production of natural gas available for sale	760 million (cubic feet per day)	10 million (cubic feet per day)	1	4
DOWNSTREAM SECTOR				
Average sale price of gasoline[6]	28 cents (per litre)	1 cent (per litre)	45	45
Average sale price of middle distillates[6,7]	25 cents (per litre)	1 cent (per litre)	38	38
Rack back (refining and supply) margin[8]	1.9 cents (per litre)	0.1 cent (per litre)	10	10
Rack forward (marketing) margin[8]	5.5 cents (per litre)	0.1 cent (per litre)	7	7
Differential light crude oil/heavy crude oil	$6.74 (per barrel)	$1.00 (per barrel)	14	14
CORPORATE				
Canadian dollar exchange rate ($U.S.)	U.S. $0.7225	U.S. $0.01	(5)	(7)

1 The impact of a change in one factor may be compounded or offset by changes in the factors noted and in other factors.This table does not consider the impact of any interrelationship between the factors. The application of these factors may not necessarily lead to an accurate prediction of future results of operations. The Company undertakes risk management initiatives from time to time which may affect these sensitivities.
2 Cash flow is affected by the current portion of the income tax provision which may vary significantly from year to year.
3 In the Management's Discussion and Analysis, cash flow is defined as cash flow from operations before changes in non-cash working capital items.
4 Western Canada only.
5 Net of decrease of $3 million in cash flow from straddle operations.
6 Average sale price of gasoline and distillates does not include federal excise tax and provincial motor fuel taxes.
7 Includes diesel oils, heating oils and aviation jet fuels.
8 Revenue minus cost of sales.



● OPERATING EARNINGS ($ millions)
■ CASH FLOW FROM OPERATIONS ($ millions)
*before organizational restructuring charges



● CFROCE (per cent)
■ ROCE (per cent)

CONSOLIDATED FINANCIAL RESULTS

(MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)	1997	1996	1995
Revenue	6 096	5 607	4 820
Earnings from operations before restructuring	314	247	241
(Losses) gains on sale of assets	(8)	–	7
Organizational restructuring	–	–	(52)
Net earnings	306	247	196
Net earnings per share (dollars)	1.13	0.94	0.79
Cash flow	1 263	863	705
Cash flow per share (dollars)	4.66	3.29	2.86
Return on capital employed[1] (per cent)	6.8	6.2	5.9
Cash flow return on capital employed[1] (per cent)	24.5	18.5	18.0
Average capital employed[1]	5 406	5 019	4 202
Debt	1 741	1 709	1 381

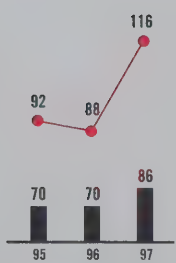
1 In the Management's Discussion and Analysis, capital employed is defined as the total of shareholders' equity and debt, less the related foreign currency translation adjustment.

1997 COMPARED WITH 1996

Petro-Canada delivered its best-ever financial results in 1997, with net earnings of $306 million ($1.13 per share), compared with $247 million ($0.94 per share) in 1996. Revenue was $6 096 million in 1997, up $489 million from last year. The cost of crude oil and product purchases was $3 183 million, compared with $2 988 million in 1996, mainly due to an 11 per cent increase in the volume of crude oil processed. Depreciation, depletion and amortization charges were $482 million, up $42 million from 1996, primarily reflecting the full-year effect on the Company's financial statements of the acquisition of Amerada Hess Canada Ltd. in April 1996. Cash flow increased to $1 263 million ($4.66 per share) in 1997, up from $863 million ($3.29 per share) a year earlier, as a result of lower current income taxes and higher earnings.

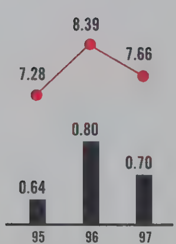
Petro-Canada's return on capital employed in 1997 was 6.8 per cent, compared with 6.2 per cent the preceding year. Cash flow return on capital employed in 1997 was a record 24.5 per cent, up from 18.5 per cent a year earlier. Despite improvements in 1997, return on capital employed measures continue to be constrained by substantial investments in Hibernia, which came on stream in late 1997, and by the significant capital employed in natural gas development in Western Canada. Return on equity increased to 8.0 per cent in 1997 from 7.3 per cent in 1996.

PRODUCTION (thousands of barrels of oil equivalent per day)



NATURAL GAS REPLACEMENT (per cent)

TOTAL RESERVES REPLACEMENT (per cent)



F&D TOTAL ($/barrel of oil equivalent)

F&D GAS ($/thousand cubic feet equivalent)

UPSTREAM SECTOR RESULTS

(MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)	1997	1996	1995
Revenue including inter-segment sales	1 829	1 702	1 343
Earnings from operations	188	192	153
(Losses) gains on asset sales	(2)	4	6
Net earnings	186	196	159
Cash flow	900	655	477
Return on capital employed (per cent)	5.7	6.5	7.1
Cash flow return on capital employed (per cent)	27.4	21.6	21.4
Average capital employed	3 284	3 028	2 228

1997 COMPARED WITH 1996

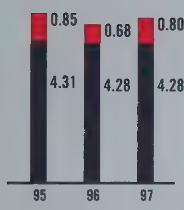
The Upstream sector earned $188 million from operations in 1997, down slightly from $192 million in 1996, as lower straddle plant margins and lower liquids production and prices more than offset increased natural gas production and prices. Commodity hedging had a positive effect of $9 million after tax on the Upstream's financial performance in 1997, while hedging activities in 1996 reduced earnings by $51 million after tax. Upstream cash flow was $900 million, compared with $655 million in 1996.

Daily liquids and natural gas production averaged 171 100 barrels of oil equivalent in 1997, up from 168 500 barrels of oil equivalent a year earlier. Natural gas production rose 48 million cubic feet per day in 1997 to an average of 760 million cubic feet per day. Total conventional crude oil and liquids production averaged 70 200 barrels per day, down from 73 200 barrels per day in 1996 as new production from Hibernia and Njord was offset by lower volumes in Western Canada.

Petro-Canada's 12 per cent interest in the Syncrude oil sands mining project yielded an average 24 900 barrels per day of synthetic crude oil in 1997, compared with 24 100 barrels per day in 1996. Syncrude and other oil sands contributed $52 million to Upstream earnings in 1997, up from $27 million in 1996, and cash flow from oil sands operations increased $55 million to $100 million in 1997.

Reserves replacement by exploration and development improved to 86 per cent in 1997, up from 70 per cent in 1996. A record 42 million barrels of oil equivalent of new proved reserves were added in Western Canada in 1997, more than 85 per cent of which was natural gas and associated liquids. Consistent with the Company's focus on growing its natural gas reserves, Petro-Canada replaced 116 per cent of its 1997 gas production, up from 88 per cent in 1996.

Petro-Canada's natural gas strategy in Western Canada delivered improved drilling results in 1997. The Company succeeded in reducing finding and development costs for Western Canada conventional proved reserves by nine per cent from $8.39 in 1996 to $7.66 per barrel of oil equivalent in 1997, despite higher industry costs for land, seismic, drilling and personnel. Natural gas finding and development costs decreased $0.10 to $0.70 per thousand cubic feet equivalent.



UPSTREAM
OVERHEAD COSTS
($/barrel of oil equivalent)
OPERATING COSTS
($/barrel of oil equivalent)

Despite industry cost pressures in 1997, operating costs for Western Canada conventional oil and natural gas averaged $4.28 per barrel of oil equivalent in 1997, unchanged from 1996. Overhead costs in Western Canada averaged $0.80 per barrel of oil equivalent in 1997, compared with $0.68 in 1996 and $0.85 in 1995. The increase in 1997 overhead costs was mainly related to expenditures for Upstream information systems initiatives.

WESTERN CANADA CONVENTIONAL NETBACKS

(DOLLARS PER BARREL OF OIL EQUIVALENT[1])	1997	1996	1995
Crude oil, natural gas and field natural gas liquids price[2]	21.36	21.08	17.24
Royalties	4.40	3.98	3.01
Operating expenses	4.28	4.28	4.31
Netback	12.68	12.82	9.92
Overhead expenses	0.80	0.68	0.85
Netback after overhead expenses	11.88	12.14	9.07

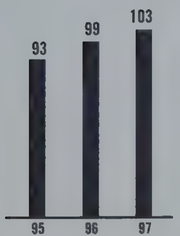
1 10 000 cubic feet of gas equals one barrel of oil.
2 Excludes effects of hedging activities.

Charges for depreciation, depletion and amortization were $5.88 per barrel of oil equivalent in 1997, compared with $5.69 in 1996 and $4.64 in 1995, primarily reflecting the Amerada Hess Canada Ltd. acquisition in 1996.

Excluding the effect of commodity hedges, the average price realized by Petro-Canada for its crude oil and field natural gas liquids production was $25.49 per barrel in 1997, down from $27.20 in 1996, while the average price received for natural gas was $1.85 per thousand cubic feet, up from $1.61 in 1996.

DOWNSTREAM SECTOR RESULTS

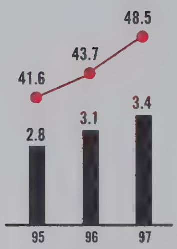
(MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)	1997	1996	1995
Revenue including inter-segment sales	4 980	4 559	4 042
Earnings from operations	225	130	160
(Losses) gains on sale of assets	(6)	(3)	1
Net earnings	219	127	161
Cash flow	415	243	305
Return on capital employed (per cent)	11.1	6.8	9.0
Cash flow return on capital employed (per cent)	21.1	13.0	17.0
Average capital employed	1 970	1 873	1 798



AVERAGE REFINERY UTILIZATION
(per cent)

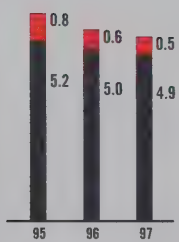
1997 COMPARED WITH 1996

The Downstream sector achieved record results in 1997 and increased its return on capital employed to 11.1 per cent, up from 6.8 per cent in 1996. Earnings from operations were $225 million or 1.3 cents per litre, compared with $130 million or 0.8 cents per litre in 1996. The strong performance was the result of capturing the benefits of an improved business environment, stronger margins and a continued focus on managing controllables, including refinery utilization, sales volume growth and site throughputs, and unit operating expenses.



DAILY SALES OF REFINED PRODUCTS (thousands of cubic metres)

RETAIL THROUGHPUT PER SITE (millions of litres per year)



DOWNSTREAM

OVERHEAD COSTS (cents/litre)

OPERATING COSTS (cents/litre)

Rack back (refining and supply) earnings were $143 million, compared with $87 million in 1996. In 1997, Petro-Canada maintained industry-leading refinery capacity utilization, with its three refineries running full at an average 46 700 cubic metres (293 740 barrels) of crude oil per day, up four per cent from 1996.

Given the strong asphalt demand in Eastern and Central Canada and a wider light/heavy crude oil price differential, Petro-Canada generated higher returns by running heavy oil at almost one-quarter of its total crude slate in 1997. The light/heavy differential averaged $6.74 per barrel in 1997, up $2.39 from a year earlier. Lubricant sales increased 33 per cent from last year; however, pressure from international competitors continued to depress prices in the marketplace. As a result of this factor, and an extremely competitive market for high value-added products, the lubricants business was marginally profitable in 1997.

Rack forward (marketing) earnings were $82 million, up from $43 million in 1996. While demand for refined petroleum products in Canada grew at an estimated 3.8 per cent in 1997, Petro-Canada led the national integrateds in petroleum product sales growth at 11 per cent, with the Company's retail sales increasing approximately seven per cent. Company sales averaged 48 500 cubic metres (305 065 barrels) per day, up from 43 700 cubic metres (274 870 barrels) per day in 1996. Retail throughput per site averaged 3.4 million litres per site in 1997, an increase of almost 10 per cent from 3.1 million litres per site the prior year. Retail site throughputs continue to improve, driven by the favourable response of consumers to the new site design, new product initiatives and convenience retailing, as well as the Company's proprietary loyalty program, Petro-Points.

Continued refinery debottlenecking and higher refining and sales volumes resulted in the fourth consecutive year of lower Downstream unit operating and overhead expenses. Operating and overhead expenses were 5.4 cents per litre in 1997, down from 5.6 cents per litre in 1996.

SHARED SERVICES RESULTS

(MILLIONS OF DOLLARS)	**1997**	1996	1995
Net expenses before restructuring and losses on asset sales	**(99)**	(75)	(72)
Organizational restructuring	–	–	(52)
	(99)	(75)	(124)
Losses on sale of assets	–	(1)	–
Net expenses	**(99)**	(76)	(124)
Cash flow	**(52)**	(35)	(77)

1997 COMPARED WITH 1996

Shared Services is structured as a cost centre and includes investment income, interest expense and general corporate revenues and expenditures. The net expenses of Shared Services in 1997 increased to $99 million, from $76 million in 1996, due to lower interest income, higher amortization of foreign exchange translation losses associated with U.S. dollar denominated debt, and increased overhead costs.

YEAR 2000 SYSTEMS PREPARATIONS

Petro-Canada recognizes the Year 2000 challenge as a very real and significant issue and is implementing a disciplined process which is intended to allow the Company to move into the millennium with no significant business interruptions. The Company has established a Year 2000 Project Office and a Year 2000 Executive Steering Committee to oversee those efforts. Their primary role is to communicate Year 2000 awareness throughout the organization and ensure project plans are effectively implemented. The Board of Directors has instructed the Year 2000 Project Director to report on the status of Year 2000 initiatives within the Company to the Audit Committee of the Board on a regular basis.

Petro-Canada's initial risk assessment will include a review of critical processes and systems within the Company. The Upstream review includes an assessment of process control systems and the identification of critical Upstream relationships with suppliers and joint venture partners and their ability to handle the Year 2000 challenge. Petro-Canada recognizes the potential Year 2000 vulnerability with respect to its offshore and international operations and intends to work proactively with its partners to reduce these risks. The Company is upgrading its Upstream systems with the SAP business and financial application. It is intended that the Upstream systems portfolio and computer hardware and software should be Year 2000 ready by year-end 1998.

A similar initiative is underway in the Downstream sector to identify key relationships with third parties including suppliers, customers and joint venture partners, as well as a review of process control systems in its refineries to ensure Year 2000 readiness. The Company has undertaken substantial modification of its Downstream systems portfolio over the past several years which has reduced the effect of the Year 2000 issue in this sector. In Downstream marketing, Year 2000 issues should be reduced by the Company's ongoing strategic initiatives which include upgrades to enhance its ability to continue to provide efficient and uninterrupted service to its customers.

At the corporate level, the Company has identified some infrastructure systems, such as the Human Resources Information System, which will need to be replaced. An initiative is underway to implement a SAP solution in this area.

Current plans call for the completion of inventory and assessment of systems and hardware by mid-1998. Remediation and testing will be conducted throughout the year, with the objective of having all mission-critical systems Year 2000 ready by year-end 1998. During the remediation and testing phase, contingency plans for unforeseen events will be developed. It is intended that testing of third-party interfaces and communications with vendors, partners and customers will continue during 1999.

Expenditures related to Year 2000 issues in 1997 were not material. It is intended that the Company will spend $10 million for Year 2000 initiatives in 1998.

LIQUIDITY AND CAPITAL RESOURCES

SUMMARY OF CHANGES IN FINANCIAL POSITION

(MILLIONS OF DOLLARS)	1997	1996	1995
OPERATING ACTIVITIES			
Cash flow	1 263	863	705
(Increase) decrease in operating working capital and other	(167)	59	(65)
Cash flow from operating activities	1 096	922	640
Investing activities	(863)	(1 611)	(791)
Financing activities and dividends	(190)	678	99
Increase (decrease) in cash and short-term investments	43	(11)	(52)

OPERATING ACTIVITIES

Cash flow in 1997 was $1 263 million, up from $863 million in 1996, reflecting a $245 million increase in cash flow from the Upstream sector and a $172 million increase from the Downstream sector. These increases were the result of lower current taxes and higher earnings. Lower current income taxes partially reflected the inventory valuation method prescribed for tax purposes, which decreased current income taxes by $46 million in 1997. The inventory adjustment increased current income taxes by $43 million in 1996.

Operating working capital increased $167 million in 1997, resulting in cash flow from operating activities of $1 096 million. The increase in working capital was mainly due to changes in income taxes payable/receivable. In 1996, cash flow from operating activities was $922 million.

In 1997, Petro-Canada provided $30 million for future removal and site restoration, compared with $23 million in 1996.

INVESTING ACTIVITIES

CAPITAL AND EXPLORATION EXPENDITURES

(MILLIONS OF DOLLARS)	1997	1996	1995
UPSTREAM[1]			
Western Canada oil and gas exploration and development	441	340	252
Hibernia and Terra Nova	182	146	242
Other Grand Banks	23	4	3
International	70	94	32
Syncrude and other oil sands	52	28	20
Other	37	37	38
	805	649	587
DOWNSTREAM			
Refining	85	165	153
Marketing, distribution and other	130	117	101
	215	282	254
SHARED SERVICES	29	28	12
Expenditures on property, plant and equipment and exploration	1 049	959	853
Deferred charges and other assets	15	9	(14)
Total	1 064	968	839

1 Includes exploration expenses charged to earnings of $75 million in 1997, $60 million in 1996 and $43 million in 1995.

Total capital expenditures on property, plant, equipment, exploration, deferred charges and other assets were $1 064 million in 1997, up from $968 million in 1996. The majority of the increase was incurred in the Upstream sector to support exploration and development in Western Canada and development activity on the Grand Banks. The Company's 1997 capital expenditures exclude capitalized lease obligations of $92 million for the Hibernia crude oil tanker, *Mattea.*

Expenditures on property, plant and equipment and exploration in the Upstream sector totalled $805 million, compared with $649 million in 1996. Exploration and development spending in Western Canada was $441 million in 1997, up $101 million from the prior year, reflecting increased property acquisitions and higher drilling expenditures. Grand Banks investments amounted to $205 million, compared with $150 million in 1996, due to higher pre-production investments at Hibernia and pre-development expenditures at Terra Nova.

International investments totalled $70 million in 1997, including $40 million in Norway for final pre-production expenditures at the Njord field and $30 million in Algeria, primarily for the drilling of two wells.

Excluding the $81 million investment related to the expansion of the lubricants facility in 1996, Downstream capital investment of $215 million in 1997 was up $14 million from the preceding year. Refinery expenditures of $85 million in 1997 focused on enhancing refinery reliability and efficiency and debottlenecking facilities. Marketing investments amounted to $130 million, up 11 per cent from 1996, mainly associated with the continued roll-out of new-image sites across Canada.

PROCEEDS FROM SALE OF PROPERTY, PLANT AND EQUIPMENT

(MILLIONS OF DOLLARS)	1997	1996	1995
Upstream	195	77	24
Downstream	6	10	24
Shared Services	–	5	–
Total	201	92	48

During the first quarter of 1997, Petro-Canada completed agreements to sell or swap non-core oil and gas properties in Western Canada valued at $215 million. Cash realized from these transactions totaled $170 million and swapped properties received were valued at $45 million. Other Western Canada assets were sold in 1997 for proceeds of $31 million, while administrative expenses and adjustments during the year reduced cash by $6 million, resulting in net proceeds of $195 million. The Company re-invested $112 million from non-core proceeds into core oil and gas operating areas during the balance of the year.

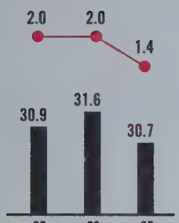
FINANCING ACTIVITIES AND DIVIDENDS

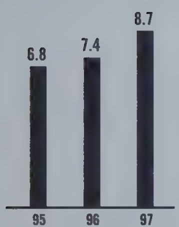
SOURCES OF CAPITAL EMPLOYED

(MILLIONS OF DOLLARS)	1997	1996	1995
Notes Payable – Hibernia	250	250	300
Long-term debt, including current portion	1 491	1 459	1 081
Shareholders' equity	3 922	3 692	3 092
	5 663	5 401	4 473
Translation adjustment on long-term debt[1]	(145)	(107)	(117)
Total	5 518	5 294	4 356

1 The translation adjustment on long-term debt is amortized over the remaining term of the debt. The weighted average term of the debt was 14 years at December 31, 1997.

Petro-Canada has established maximum leverage targets to ensure the Company's continued balance sheet strength and financial flexibility. These targets include a debt to cash flow ratio of 2.0 and a debt to debt plus equity ratio of 30 per cent, which are considered by management to be prudent. At December 31, 1997, Petro-Canada's total debt was $1 741 million,





compared with $1 709 million at year-end 1996. The change in total debt reflected repayments of $114 million, the addition of $92 million of capital lease obligations and an increase of $54 million resulting from the effect of the lower Canadian dollar exchange rate relative to the U.S. dollar at year-end 1997. The Company's debt to debt plus equity ratio was 30.7 per cent, versus 31.6 per cent at the end of 1996. The ratio of debt to cash flow was 1.4 at the end of 1997, down from 2.0 at year-end 1996, reflecting a substantial increase in cash flow in 1997. Petro-Canada's interest coverage ratio, which measures the extent to which interest charges on the Company's debt instruments are covered by earnings before interest, taxes, depreciation, depletion and amortization, improved to 8.7 from 7.4 in 1996.

The fiscal regime for the Hibernia offshore oil field gives Petro-Canada access to a total of $250 million in Government of Canada-guaranteed debt. As at December 31, 1997, Petro-Canada had accessed its full entitlement of $250 million. The debt under this entitlement matures in December 1998, and management intends to refinance by long-term debt utilizing the government guarantee. Debt supported by the government guarantee is carried on Petro-Canada's balance sheet and it is anticipated that revenue from Petro-Canada's share of Hibernia production will service and repay this debt.

The Company is party to an agreement for the time charter of a vessel, the *Mattea*, for the transportation of crude oil produced from Hibernia. Petro-Canada's resulting annual fixed obligations of approximately $14 million, commenced in late 1997. The initial term of the time charter is 10 years, extendible at the Company's option for an additional 15 years.

In April 1997, the Company increased its quarterly dividend from $0.05 to $0.08 per share. Dividends declared on common shares and variable voting shares were $79 million in 1997, up from $53 million in 1996. Petro-Canada reviews its dividend strategy from time to time to ensure alignment of dividend policy with shareholder requirements, and the Company's financial and growth objectives.

Working capital and bridge financing requirements will continue to be met using the Company's cash position and through the issuance of short-term debt if necessary. Petro-Canada has access to bank lines of credit and a commercial paper program totaling $1.2 billion, supported by committed and demand credit facilities from several major Canadian financial institutions. As at December 31, 1997, the commercial paper program was not utilized and the Company's net cash and short-term investments were $75 million.

In 1997, Moody's Investors Service and Standard & Poor's confirmed Petro-Canada's debt ratings, citing the Company's financial flexibility and earnings and cash flow strength in the medium term as a result of continued strategic accomplishments. Moody's rating on Petro-Canada's senior unsecured debt is A3 and Standard & Poor's is BBB+. Dominion Bond Rating Service and the Canadian Bond Rating Service ratings on Petro-Canada's unsecured notes and debentures are both A.

FINANCIAL RATIOS

	1997	1996	1995
Current ratio	1.3	1.1	1.2
Interest coverage			
– earnings basis	5.3	4.3	3.9
– EBITDA basis	8.7	7.4	6.8
– cash flow basis	9.4	8.0	7.8
Debt to cash flow	1.4	2.0	2.0
Debt to debt plus equity (per cent)	30.7	31.6	30.9

OTHER FINANCING OBLIGATIONS

Petro-Canada and another company each own an undivided 50 per cent interest as tenants-in-common in the Petro-Canada Centre office complex in Calgary. At December 31, 1997, Petro-Canada had financing obligations of $139 million related to the Petro-Canada Centre, consisting of a guarantee of the joint and several obligations of its co-owner.

MANAGEMENT'S OUTLOOK

BUSINESS ENVIRONMENT AND IMPLICATIONS

Prices for energy commodities are influenced by a number of factors, including developments in supply and demand, weather, political events and the level of industry inventories. Energy prices in general and particularly crude oil prices, are expected to remain volatile in 1998. Management has assumed for planning purposes that the price of WTI crude will average U.S. $19.50 per barrel in 1998, compared with U.S. $20.62 in 1997. Recent market developments suggest this expectation might underestimate the extent of the fall in crude prices this year. In January and February 1998, the price of WTI averaged U.S.$16.41 per barrel, down $7.38 per barrel, or 31 per cent, from a year earlier. The downward pressure on crude oil prices was due to a combination of reduced Asian demand and mild winter conditions on both sides of the Atlantic, along with an increase in OPEC production and the uncertainty relating to increased Iraqi exports under the United Nations humanitarian relief program. The confluence of these factors will likely keep oil prices under severe downward pressure during the first half of the year.

The impact on Company revenues of weaker international oil prices on Canadian oil prices could be mitigated somewhat by continued weakness in the Canadian dollar exchange rate relative to the U.S. dollar. For planning purposes, management has assumed an average Canadian dollar exchange rate of 73 U.S. cents for 1998, compared with 72.25 U.S. cents in 1997. During January, the Canadian dollar averaged close to 69 U.S. cents, reflecting the impact of negative interest rate differentials with the United States and the effects of the Asian crisis on commodity prices. The fact that it will take some time to close the gap between Canadian and U.S. interest rates suggests that the Canadian dollar will remain under pressure in spite of very positive Canadian economic fundamentals.

For business planning purposes, management has assumed the average industry price of natural gas at the Alberta plant gate will be $1.80 per thousand cubic feet in 1998, compared with $2.05 in 1997. The expectation of weaker prices in 1998 is based on the assumption that the combination of factors that led to very strong gas prices across North America in 1997 will not be repeated in 1998. In projecting 1998 prices, management has assumed normal weather and that additions to export pipeline capacity will materialize late in 1998. This should lead to improving Canadian gas prices towards the end of 1998 and into 1999.

The refining and marketing segments are expected to benefit from the transition from higher to lower crude oil costs. In addition, expectations of continued positive Canadian economic conditions lead management to anticipate industry growth of approximately 2.5 per cent in domestic sales of refined products in 1998, compared with 3.8 per cent in 1997.

BUSINESS PORTFOLIO DEVELOPMENT

UPSTREAM

Petro-Canada's Upstream portfolio consists of Western Canadian conventional oil and natural gas, oil sands, Grand Banks oil and international.

WESTERN CANADA

Given Petro-Canada's oil investment opportunities outside the Western Canadian Sedimentary Basin, the Company is rebalancing its business portfolio with an increased emphasis on profitably growing natural gas reserves and production, while divesting mature oil properties in order to maximize their value to the Company. As a result, Petro-Canada will begin divesting certain Western Canada oil producing assets to accelerate the implementation of the Company's natural gas growth strategy. The timing and method of this program will depend on market conditions. As Petro-Canada rebalances its portfolio, management expects Western Canada natural gas production volumes will rise significantly, while finding and development costs and operating and overhead costs will improve.

OIL SANDS

The recently announced expansion at Syncrude, once approved by the owners, will increase Petro-Canada's share of production from the current level of 25 000 barrels per day to 32 000 barrels per day in the year 2001 and ultimately to more than 50 000 barrels per day by 2007. Increased production, lower unit operating costs and a favourable fiscal regime are expected to combine to give attractive economic returns from Syncrude.

Petro-Canada is one of the largest holders of *in-situ* oil sands leases in the Athabasca area of northern Alberta. During the winter of 1996/1997, the Company began a significant core hole drilling program to evaluate its MacKay River and other oil sands leases. A feasibility study of these leases, which addresses supply, upgrading, marketing, financial and environmental factors, is underway.

GRAND BANKS

On the Grand Banks offshore Newfoundland, Petro-Canada envisages a continuing series of oil field developments coming on stream and ongoing exploration that have the potential to provide substantial growth in oil reserves and production. Production from Hibernia is expected to fluctuate in 1998 as new wells are drilled and pressure maintenance facilities are installed. Petro-Canada expects that production will increase substantially in the second half of the year and will reach the planned average daily volume for 1998 of 60 000 barrels per day. In 1999, this field is projected to reach its peak production rate of 135 000 barrels per day, of which Petro-Canada's share will be 27 000 barrels per day. Petro-Canada's second oil development, Terra Nova, received final regulatory and owner approval in early 1998. The owners estimate that first production from the field will commence in late 2000 and, at peak production, the Company's 29 per cent interest is expected to yield an average of 33 000 barrels per day.

As successive fields come on stream, Petro-Canada expects that pre-production and operating expenditures will decrease as each new development makes use of existing infrastructure, transportation and trans-shipment facilities, thereby achieving lower unit development and production costs.

INTERNATIONAL

In Algeria, Petro-Canada and SONATRACH, the Algerian national oil company, are currently evaluating the results of two natural gas and gas condensate discoveries to determine their commercial potential. The Company plans to drill an additional four wells on its two-million-acre block in 1998.

The Company's share of volumes from the Njord field is expected to increase in 1998 and reach peak production of 4 600 barrels per day early in 1999.

NATURAL GAS LIQUIDS BUSINESS

In November 1996, Petro-Canada announced it was considering various strategic alternatives, including a possible divestiture, to enhance the value of its retail propane business operated by its wholly-owned subsidiary, ICG Propane Inc. On February 20, 1998, ICG Propane Income Fund filed a preliminary prospectus with securities commissions in Canada in connection with an initial public offering of trust units. The fund was formed for the purpose of acquiring ICG Propane Inc. from Petro-Canada.

DOWNSTREAM

Petro-Canada's Downstream portfolio consists of refineries in Edmonton, Oakville and Montreal, a lubricants facility in Mississauga, and a nationwide network of retail and wholesale fuel outlets. In refining and supply, the Company's objective is to be a low-cost producer of refined petroleum products, while in marketing, its aim is to be a low-cost provider of products and services in Canada.

In rack back, Petro-Canada will continue to operate its refineries at full capacity and optimize the crude slate in response to changing market conditions to maximize returns. The Company will also invest to upgrade facilities in 1998, including a $25 million expansion of the catalytic cracker in Montreal to increase the unit's capacity from 3 020 cubic metres (19 000 barrels) per day to 4 770 cubic metres (30 000 barrels) per day, and to improve efficiency. Petro-Canada has identified initiatives to improve the long-term competitive position of the Lubricants business by reducing basestock production costs. These initiatives will be implemented by year-end 1998.

In rack forward, the Company will continue to roll-out its new-image sites, offering improved convenience retailing and new product initiatives to consumers. These new-image sites are expected to further improve Downstream value drivers including petroleum products sales growth, site throughputs and unit operating expenses, as well as provide a significant uplift in non-petroleum revenues.

JOINT VENTURE

In January 1998, Petro-Canada signed a Memorandum of Understanding with Ultramar Diamond Shamrock Corporation (UDS) to form a refining and marketing joint venture to serve customers more efficiently in Canada, the northeastern United States and Michigan, to reduce costs of the combined operations, and to exploit new growth opportunities. The proposed joint venture will allow Petro-Canada to respond to the worldwide trend of downstream consolidation, to establish scale and strengthen the Company's competitive position in Canada by leveraging the Petro-Canada brand and to capture cost reduction benefits from operating synergies.

The joint venture, which will operate as a Canadian general partnership, includes all of Petro-Canada's downstream assets, including lubricants, and UDS' downstream operations in Canada, northeastern United States and Michigan. Petro-Canada will hold a 64 per cent economic interest in the joint venture, based on the relative value of the businesses each partner expects to contribute to the venture, and will control 51 per cent of the joint venture voting units. Petro-Canada expects the transaction will increase its operating earnings in the first full year of operations. On closing of this transaction, Petro-Canada will record a charge to earnings for its share of the costs of establishing and integrating assets into the joint venture, and for the cost of the resulting reorganization of the Company.

Formation of the joint venture is subject to completion of due diligence, definitive documentation, regulatory review and the approval of both the Petro-Canada and UDS boards of directors. Until completion of the regulatory review, including approval by the Government of Canada's Competition Bureau, approval of definitive agreements and closing, the downstream operations of each company will continue to be run separately and compete with each other in the marketplace. Petro-Canada expects to complete the transaction by mid-1998.

1998 CAPITAL BUDGET

In 1998, Petro-Canada expects to invest approximately $1.2 billion in property, plant and equipment and exploration and development. Exploration and development expenditures in Western Canada will be approximately $375 million, with the majority invested for growth in the Company's natural gas portfolio in Alberta and northeastern British Columbia. Of this amount, $125 million will be allocated to exploration and $250 million to the development of conventional oil and gas properties. The Company will also invest approximately $95 million in Syncrude and other oil sands developments. Petro-Canada will invest about $300 million in the continued development and exploration of its assets offshore Newfoundland, of which $255 million will be invested to develop the Terra Nova oil field and to drill wells to increase oil production and maintain field pressure at Hibernia. The remainder will be allocated to exploration drilling and to acquire and process seismic data on other Grand Banks fields.

Approximately $90 million will be invested internationally, with the majority allocated to drill four wells and for delineation and pre-development on the two recent natural gas and gas condensate discoveries in Algeria.

Approximately $280 million will be invested in the Downstream, primarily for continued improvement in the efficiency and profitability of the Company's three refineries and lubricants facility, and to continue rolling out new-image retail sites. The Company will also invest $35 million in business systems and process improvements.

ENVIRONMENTAL FACTORS

Petro-Canada is committed to responsible management of the environment and conducts a variety of programs to support this policy, including adherence to prudent industry practices, as well as full compliance with laws and regulations. As a participant in the oil and gas industry, Petro-Canada is subject to increasing public scrutiny and legislative initiatives relating to the protection of the environment. The environmental challenges facing the industry include: responding to new and broader legislation dealing with issues such as waste management; limits on access to exploration areas; product standards; the control of greenhouse gas emissions; fuel reformulation; and the reclamation and restoration of contaminated sites. Specific environmental matters currently relating to the petroleum industry are the Kyoto protocol to the 1992 Climate Change Treaty and the regulation of sulphur and benzene levels in gasoline.

In December 1997, 160 nations adopted a treaty in Kyoto, Japan which, in principle, will impose differentiated targets on nations, with the expectation that Canada will be required to reduce emissions by six per cent below 1990 levels by 2010. Altogether, the signatories will be cutting emissions by slightly more than five per cent under 1990 levels by 2010. The decrease in demand for hydrocarbons implied by these targets has the potential to be deleterious to both the Canadian upstream and downstream industries within Canada and abroad. Petro-Canada will continue to work with the federal government and other stakeholders to develop a balanced action plan that effectively addresses climate change and the Kyoto protocol, while safeguarding Canada's economic interests.

Voluntary actions by Petro-Canada since 1990 have eliminated more than one million tonnes a year of greenhouse gas emissions. The Company reduced its overall greenhouse gas emissions by six per cent from 1990 to 1996, despite growth in production of almost 11 per cent.

Petro-Canada will invest approximately $55 million over the next two years to reduce the benzene content of gasoline that it produces at its major Downstream facilities to meet the 95 per cent limit set by the Government of Canada. During a scheduled maintenance shutdown at the Edmonton refinery in 1997, the Company installed a pre-fractionation tower that will reduce the benzene content of gasoline produced at the Company's largest refinery by 40 per cent by the end of 1998.

Through investments at the Edmonton and Montreal refineries, Petro-Canada has lowered the sulphur content of its on-road diesel fuels, and is working with the Government of Canada and the Canadian Petroleum Products Institute to establish appropriate standards for sulphur and olefin content in gasoline.

In 1997, outlays relating to environmental matters were approximately $56 million of capital expenditures and $83 million of expenses. At December 31, 1997, the Company had provided $167 million for estimated future removal and site restoration costs. Management anticipates that capital and other expenditures necessary to meet environmental challenges will increase over time.

RISK MANAGEMENT

Petro-Canada's risk management program is designed to reduce the variability of cash flow related to changes in commodity prices, currency exchange rates, interest rates and physical risks within defined tolerance levels. The Company's risk management objective is to ensure that it can continue to make the necessary investments to support its business strategies, while maintaining sufficient cash flow to meet ongoing obligations. Management oversees the overall direction, conduct and control of the Company's exposure management activities, in accordance with the mandate, policies and guidelines established by the Board of Directors. Hedging, purchasing of insurance, and other techniques are used in managing this exposure to within acceptable limits.

The Company's risk management policy prohibits the use of derivative instruments for speculative purposes. The term of hedging instruments cannot exceed 18 months, unless specifically authorized by the Board of Directors. The Board has authorized a 36-month term for the purpose of natural gas portfolio management.

Derivatives are usually transacted only with counterparties who possess a minimum long-term credit rating of A, and who have signed an International Swap Dealers Association agreement with the Company. Credit limits take into account current and potential losses due to non-performance of a counterparty and reduce credit risk concentration with any single counterparty. Ongoing monitoring and reporting of the derivatives portfolio includes periodic stress testing of the fair value of all outstanding derivatives.

The net effect of commodity, currency and interest rate hedging during 1997 was an after-tax gain of approximately $10 million, up from a $58 million after-tax opportunity cost in the prior year.

Consistent with its risk management objectives, Petro-Canada selectively manages its commodity, interest and exchange rate exposures through the use of physical product arrangements, futures, forward contracts, forward sales, swaps and options, as appropriate. Upstream crude oil exposure may be mitigated through the forward selling of, or purchase of, options on crude oil production. The Downstream sector hedges a portion of its exposure to price fluctuations in crude oil and refined product purchases and sales, and to changing refining margins, primarily through the use of futures contracts of short duration. The Company manages its natural gas portfolio on an aggregated portfolio basis which, from time to time, involves forward sales of natural gas production to hedge price exposure, as well as the use of basis swaps to diversify the Company's physical price risk. The direction, timing and magnitude of Petro-Canada's exposure to fluctuations in the Canadian dollar exchange rate are quantified, aggregated and managed using foreign currency options, swaps and forward sales contracts.

At December 31, 1997, approximately two per cent of anticipated 1998 natural gas production, net of royalties, was sold forward at an average price of U.S. $1.20 per thousand cubic feet. At year-end 1997, the Downstream business segment had bought forward crude oil contracts to reduce exposure to margin fluctuations on fixed-price product sales and had short-term hedge positions to reduce exposure to price fluctuations on foreign and domestic crude oil and refined product purchases. Other positions at year-end included U.S. $363 million, or approximately 63 per cent of the 1998 exchange rate exposure, which was hedged using a combination of forward sales and option collars. These positions resulted in protection above a weighted average rate of 0.7214 and participation down to a weighted average rate of 0.7013. U.S. $25 million, or approximately five per cent of the 1999 exposure was protected at 0.7143, with participation down to 0.6908.

The Company manages its exposures to physical risk through comprehensive risk assessment and loss management processes, and maintains adequate insurance coverage. Risk assessment and loss prevention activities are prioritized to optimize the total benefit of this program.

Insurance coverage is placed with quality security in the global insurance market. Limits of insurance are based on engineering risk assessments. Deductibles are set at levels that appropriately leverage the Company's ability to retain risk where a cost-benefit is indicated and within acceptable tolerance parameters. All major decisions are approved by senior management and are biased towards conservatism.

As financial strength and cash flow continue to improve, Petro-Canada adjusts its risk management strategy in response to its increased confidence in its ability to absorb risk. In the future, Petro-Canada anticipates it will finance risk more efficiently through increasing use of portfolio strategies when making hedging and insurance decisions.

Overall, Petro-Canada maintains a conservative risk profile, which strives to manage downside risk and maintain balance sheet strength within its overriding objective of adding shareholder value.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include estimates which are based on management's best judgments. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for installing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements.

Arthur Andersen & Co., a firm of chartered accountants, were appointed by the shareholders as external auditors to conduct an independent examination and express their opinion on the consolidated financial statements. The Auditors' Report outlines the auditors' opinion and the scope of their examination. The Company has also contracted Arthur Andersen & Co. to provide other audit services, including a review of the system of internal controls to ensure that there are no significant weaknesses.

The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board.

James M. Stanford
President and
Chief Executive Officer

Wesley R. Twiss
Executive Vice-President
(chief financial officer)

February 4, 1998

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Board of Directors exercises its responsibility for overseeing management's performance of its financial reporting and internal control responsibilities with the assistance of the Audit Committee of the Board.

The Committee, which is composed of not less than three (currently five) directors who are not employees of the Company, reviews the annual consolidated financial statements prior to their approval by the Board. The Committee also reviews financial information contained in prospectuses and in reports filed with regulatory authorities, as required, as well as quarterly financial information.

With respect to the external auditors, the Committee reviews the terms of engagement, the annual audit plan, the Auditors' Report and the results of the audit. The Committee also recommends to the Board a firm of external auditors to be appointed by the shareholders.

With respect to Arthur Andersen & Co.'s engagement as contract auditor to review the system of internal controls, the Committee receives periodic reports, reviews significant findings and recommendations and approves their engagement contract and annual review plan.

Senior management, the external auditor and the contract auditor attend all Audit Committee meetings and each is provided with the opportunity to meet privately with the Committee.

Claude Fontaine
Chairman of the Audit Committee

February 4, 1998

AUDITORS' REPORT

To the Shareholders of Petro-Canada:

We have audited the consolidated balance sheet of Petro-Canada as at December 31, 1997 and 1996 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1997 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Arthur Andersen & Co.
Chartered Accountants
Calgary, Alberta

February 4, 1998

CONSOLIDATED STATEMENT OF EARNINGS

(STATED IN MILLIONS OF CANADIAN DOLLARS)

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
REVENUE			
Operating	$ 6 017	$ 5 514	$ 4 739
Investment and other income	79	93	81
	6 096	5 607	4 820
EXPENSES			
Crude oil and product purchases	3 183	2 988	2 405
Producing, refining and marketing	1 352	1 257	1 198
General and administrative (Note 4)	194	187	308
Exploration	75	60	43
Depreciation, depletion and amortization	482	440	338
Taxes other than income taxes	68	70	68
Interest	106	109	90
	5 460	5 111	4 450
EARNINGS BEFORE INCOME TAXES	636	496	370
PROVISION FOR INCOME TAXES (Note 5)			
Current	(41)	160	120
Deferred	371	89	54
	330	249	174
NET EARNINGS	$ 306	$ 247	$ 196
NET EARNINGS PER SHARE (dollars) (Note 6)	$ 1.13	$ 0.94	$ 0.79

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(STATED IN MILLIONS OF CANADIAN DOLLARS)

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	$ (88)	$ (282)	$ (429)
Net earnings	306	247	196
Dividends on common and variable voting shares	(79)	(53)	(49)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$ 139	$ (88)	$ (282)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(STATED IN MILLIONS OF CANADIAN DOLLARS)

FOR THE YEARS ENDED DECEMBER 31,	1997	1996	1995
OPERATING ACTIVITIES			
Net earnings	$ 306	$ 247	$ 196
Items not affecting cash flow (Note 7)	882	556	466
Exploration expenses (Note 11)	75	60	43
Cash flow	1 263	863	705
(Increase) decrease in operating working capital and other (Note 8)	(167)	59	(65)
Cash flow from operating activities	1 096	922	640
INVESTING ACTIVITIES			
Expenditures on property, plant, equipment and exploration	(1 049)	(959)	(853)
Proceeds from sale of property, plant and equipment	201	92	48
(Increase) decrease in deferred charges and other assets, net	(15)	(9)	14
Acquisition of Amerada Hess Canada Ltd. (Note 9)	—	(735)	—
	(863)	(1 611)	(791)
FINANCING ACTIVITIES AND DIVIDENDS			
Reduction of long-term debt	(114)	(2)	(2)
Dividends on common and variable voting shares	(79)	(53)	(49)
Proceeds from issue of common and variable voting shares	3	406	—
(Decrease) increase in Notes Payable – Hibernia	—	(50)	150
Proceeds from issue of long-term debt	—	377	—
	(190)	678	99
INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	43	(11)	(52)
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	32	43	95
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 75	$ 32	$ 43

(STATED IN MILLIONS OF CANADIAN DOLLARS)

AS AT DECEMBER 31,	1997	1996
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 75	$ 32
Accounts receivable	904	943
Income taxes recoverable	68	—
Inventories (Note 10)	510	472
Prepaid expenses	20	28
	1 577	1 475
PROPERTY, PLANT AND EQUIPMENT, NET (Note 11)	6 441	6 014
DEFERRED CHARGES AND OTHER ASSETS (Note 12)	320	280
	$ 8 338	$ 7 769
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1 189	$ 1 196
Current portion of long-term debt	3	109
Income taxes payable	—	58
	1 192	1 363
NOTES PAYABLE – HIBERNIA (Note 13)	250	250
LONG-TERM DEBT (Note 14)	1 488	1 350
DEFERRED CREDITS AND OTHER LIABILITIES (Note 15)	321	321
DEFERRED INCOME TAXES	1 165	793
COMMITMENTS AND CONTINGENT LIABILITIES (Note 21)		
SHAREHOLDERS' EQUITY (Note 16)	3 922	3 692
	$ 8 338	$ 7 769

Approved on behalf of the Board

James M. Stanford
Director

Claude Fontaine
Director

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Petro-Canada and of all subsidiary companies ("the Company") and comply in all material respects with Canadian generally accepted accounting principles.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

(B) INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil and products is determined primarily on a "last-in, first-out" basis.

(C) INVESTMENTS

Investments in companies over which the Company has significant influence, other than joint ventures, are accounted for on the equity method. Interests in joint ventures are proportionately consolidated while other long-term investments are accounted for on the cost method.

(D) PROPERTY, PLANT AND EQUIPMENT

Investments in exploration and development activities are accounted for on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(E) DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation and depletion of capitalized costs of oil and gas producing properties are calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

The carrying amounts of unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings.

(F) FUTURE REMOVAL AND SITE RESTORATION COSTS

Estimated future removal and site restoration costs which are probable and can be reasonably determined are provided for on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(G) TRANSLATION OF FOREIGN CURRENCY

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

(H) HEDGING ACTIVITY

The Company uses derivative instruments to reduce its exposure to foreign exchange, interest rate and commodity price fluctuations. Gains and losses on these contracts, all of which constitute effective hedges, are deferred and recognized as a component of the related transaction.

(I) POST RETIREMENT BENEFITS

In addition to its pension plans the Company provides for other post retirement benefits, including health, dental and life insurance, to its qualifying retirees. The actuarially determined cost of these benefits are accrued over the estimated service lives of employees.

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

2. SEGMENTED INFORMATION

The Company operates in two business segments:

Upstream, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, propane, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Downstream, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

	UPSTREAM			DOWNSTREAM		
	1997	1996	1995	**1997**	1996	1995
REVENUE						
Sales to customers and other revenues	**$ 1 131**	$ 1 035	$ 790	**$ 4 971**	$ 4 551	$ 4 029
Inter-segment sales	**698**	667	553	**9**	8	13
SEGMENT REVENUE	**$ 1 829**	$ 1 702	$ 1 343	**$ 4 980**	$ 4 559	$ 4 042
EARNINGS						
Operating earnings before the following:	**$ 854**	$ 789	$ 565	**$ 505**	$ 340	$ 401
Depreciation, depletion and amortization	**347**	315	217	**128**	120	118
Exploration expense	**75**	60	43	**—**	—	—
Interest	**—**	—	—	**—**	—	—
Provision for income taxes	**246**	218	146	**158**	93	122
NET EARNINGS	**$ 186**	$ 196	$ 159	**$ 219**	$ 127	$ 161
CAPITAL AND EXPLORATION EXPENDITURES						
Property, plant and equipment and exploration expenditures	**$ 805**	$ 649	$ 587	**$ 215**	$ 282	$ 254
Deferred charges and other assets	**9**	(2)	(18)	**10**	2	(2)
Acquisition of Amerada Hess Canada Ltd.	**—**	735	—	**—**	—	—
	$ 814	$ 1 382	$ 569	**$ 225**	$ 284	$ 252
TOTAL ASSETS	**$ 4 765**	$ 4 447	$ 3 278	**$ 3 085**	$ 2 987	$ 2 790
CAPITAL EMPLOYED	**$ 3 270**	$ 3 298	$ 2 371	**$ 2 003**	$ 1 936	$ 1 810

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Shared Services includes investment income, interest expense and general corporate revenue and expense. Shared Services assets are principally cash and short-term investments, buildings and other general corporate assets.

SHARED SERVICES			CONSOLIDATED		
1997	1996	1995	1997	1996	1995
$ (6)	$ 21	$ 1	$ 6 096	$ 5 607	$ 4 820
—	—	—			
$ (6)	$ 21	$ 1			
$ (60)	$ (24)	$ (125)	$ 1 299	$ 1 105	$ 841
7	5	3	482	440	338
—	—	—	75	60	43
106	109	90	106	109	90
(74)	(62)	(94)	330	249	174
$ (99)	$ (76)	$ (124)	$ 306	$ 247	$ 196
$ 29	$ 28	$ 12	$ 1 049	$ 959	$ 853
(4)	9	6	15	9	(14)
—	—	—	—	735	—
$ 25	$ 37	$ 18	$ 1 064	$ 1 703	$ 839
$ 488	$ 335	$ 420	$ 8 338	$ 7 769	$ 6 488
$ 245	$ 60	$ 175	$ 5 518	$ 5 294	$ 4 356

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

3. TAXES AND CROWN ROYALTIES

In addition to the provision for income taxes and other taxes included in the consolidated statement of earnings, the following items have been collected or produced on behalf of governments and have been paid or are payable by the Company:

	1997	1996	1995
Provincial fuel and sales taxes	$ 1 356	$ 1 268	$ 1 196
Federal excise taxes	820	786	766
Goods and Services Tax collected	680	585	514
Crown royalties, paid and paid in kind	217	225	129
	$ 3 073	$ 2 864	$ 2 605

4. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for 1995 include a provision of $87 million for the cost of an organizational restructuring program resulting in a workforce reduction and related changes in office space requirements.

5. INCOME TAXES

The computation of the provision for income taxes, which requires adjustment to earnings before income taxes for non-taxable and non-deductible items, is as follows:

	1997	1996	1995
Earnings before income taxes	$ 636	$ 496	$ 370
Add (deduct):			
Non-deductible royalties and other payments to provincial governments, net	198	180	105
Resource allowance	(188)	(162)	(93)
Non-deductible depreciation, depletion and amortization and disposals	145	118	49
Equity in earnings of affiliates	(7)	(8)	(11)
Other	7	—	7
Earnings as adjusted before income taxes	$ 791	$ 624	$ 427
Canadian Federal income tax rate	38.0%	38.0%	38.0%
Canadian Federal income tax on earnings as adjusted	$ 301	$ 237	$ 162
Large Corporations Tax	14	12	11
Provincial and other income taxes, net of federal abatement	34	37	22
Rebates and other	(19)	(37)	(21)
Provision for income taxes	$ 330	$ 249	$ 174
Effective income tax rate on earnings before income taxes	51.9%	50.2%	47.0%

Complex income tax issues which involve interpretations of continually changing regulations are encountered in computing the provision for income taxes. Management believes that adequate provision has been made for all such outstanding issues.

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

6. NET EARNINGS PER SHARE

The basic net earnings per share, based on the weighted average number of common and variable voting shares outstanding in 1997 of 270.9 million (1996 – 262.3 million; 1995 – 246.7 million), for the year ended December 31, 1997 was $1.13 (1996 – $0.94; 1995 – $0.79). Fully diluted earnings per share, calculated on the assumption that all outstanding stock options were exercised, do not differ from the basic net earnings per share.

7. ITEMS NOT AFFECTING CASH FLOW

	1997	1996	1995
Depreciation, depletion and amortization	$ 482	$ 440	$ 338
Deferred income taxes	371	89	54
Provision for future removal and site restoration costs	30	23	22
Amortization of unrealized foreign exchange losses	16	14	13
Gain on sale of assets	(32)	(21)	(13)
Organizational restructuring (Note 4) and other	15	11	52
	$ 882	$ 556	$ 466

8. (INCREASE) DECREASE IN OPERATING WORKING CAPITAL AND OTHER

	1997	1996	1995
Accounts receivable	$ 39	$ (46)	$ (31)
Income taxes recoverable	(68)	86	(75)
Inventories	(38)	(58)	23
Prepaid expenses	8	(3)	8
Accounts payable and accrued liabilities	(7)	17	57
Income taxes payable	(58)	49	—
Current portion of long-term liabilities and other	(43)	14	(47)
	$ (167)	$ 59	$ (65)

Operating working capital is comprised of working capital other than cash and short-term investments and current portion of long-term debt.

9. ACQUISITION OF AMERADA HESS CANADA LTD.

Effective April 3, 1996 the Company acquired all of the issued shares of Amerada Hess Canada Ltd. The acquisition has been accounted for by the purchase method of accounting as follows:

Book value of assets acquired, excluding cash	$ 563
Book value of assumed liabilities	(229)
	334
Excess of attributed value over book value of acquired assets allocated to property, plant and equipment	401
	$ 735

Funds for the acquisition were provided by the issuance of common and variable voting shares and long-term debt.

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

10. INVENTORIES

	1997	1996
Crude oil, refined products and merchandise	$ 438	$ 408
Materials and supplies	72	64
	$ 510	$ 472

11. PROPERTY, PLANT AND EQUIPMENT

	1997			1996				
	COST	ACCUMULATED DEPRECIATION, DEPLETION & AMORTIZATION	NET	COST	ACCUMULATED DEPRECIATION, DEPLETION & AMORTIZATION	NET	CAPITAL EXPENDITURES 1997	CAPITAL EXPENDITURES 1996
UPSTREAM								
Oil and gas								
Canada non-frontier	$ 4 185	$ 2 054	$ 2 131	$ 4 120	$ 1 975	$ 2 145	$ 393	$ 301
Hibernia	965	2	963	822	—	822	143	142
Other frontier	99	—	99	53	—	53	46	7
Asset under capital lease	92	—	92	—	—	—	—	—
Foreign	294	33	261	234	11	223	60	79
Oil sands								
Syncrude	633	238	395	591	224	367	42	25
Other	224	224	—	216	216	—	8	1
Natural gas liquids	580	341	239	560	321	239	37	34
Other	41	32	9	40	35	5	1	—
	7 113	2 924	4 189	6 636	2 782	3 854	730	589
DOWNSTREAM								
Refining	2 563	1 472	1 091	2 476	1 407	1 069	85	165
Marketing and other	1 465	553	912	1 358	503	855	130	117
	4 028	2 025	2 003	3 834	1 910	1 924	215	282
OTHER PROPERTY, PLANT AND EQUIPMENT	590	341	249	566	330	236	29	28
	$ 11 731	$ 5 290	$ 6 441	$ 11 036	$ 5 022	$ 6 014	$ 974	$ 899

66

Interest capitalized during 1997 amounted to $35 million (1996 – $32 million; 1995 – $28 million).

Capital expenditures and exploration expenses charged to earnings are classified as investing activities in the consolidated statement of changes in financial position.

The Company is an owner of the Hibernia offshore oil field where production began in November 1997. A portion of the production platform and ancillary facilities is being depreciated based on development to date. The Company's share of future development costs is estimated at $333 million, which is expected to be financed by cash flow from Hibernia.

The Company is party to an agreement for the time charter and operation of a vessel for the transportation of crude oil produced from Hibernia. Payments under this time charter began in November 1997 for an initial term of 10 years extendible at the Company's option for an additional 15 years. The time charter has been accounted for as a capital lease.

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

12. DEFERRED CHARGES AND OTHER ASSETS

	1997	1996
Translation adjustment on long-term debt	$ 145	$ 107
Deferred pension funding	70	77
Investments	38	39
Goodwill	27	25
Other	40	32
	$ 320	$ 280

13. NOTES PAYABLE – HIBERNIA

Notes Payable – Hibernia comprise $150 million 6.125% bonds and $100 million 7.74% bonds which are guaranteed by the Government of Canada; recourse of the holders is limited to the guarantee. The Government's recourse to the Company is limited, subject to the Company's compliance with certain covenants, to the interest in Hibernia. Both series of bonds mature in 1998 and management intends to refinance with long-term debt and can use an available facility. The Company is entitled to utilize the Government of Canada's guarantee for this refinancing.

14. LONG-TERM DEBT

	MATURITY	1997	1996
Debentures and notes			
8.60% unsecured notes (U.S. $300 million)	2001	$ 428	$ 411
9.25% unsecured debentures (U.S. $300 million)	2021	428	411
7.875% unsecured debentures (U.S. $275 million)	2026	393	377
Mortgage bonds[1]	2006	77	78
Notes payable[1]	2000	62	62
Other		11	11
9.375% unsecured notes		—	109
Capital lease (Note 11)[2]	2022	92	—
		1 491	1 459
Current portion		3	109
		$ 1 488	$ 1 350

1 The notes payable and mortgage bonds relate to the Company's 50% ownership of Petro-Canada Centre, an office complex in Calgary, and consists of two revolving term credit facilities. These instruments pay floating rate interest which at December 31, 1997 ranged from 4.46% to 5.25%. The total Petro-Canada Centre debt of $278 million has a joint and several guarantee by the co-owners.

2 The implicit rate of interest in the capital lease is 12.49%. The aggregate repayment will be $92 million (U.S. $64 million), including $3 million (U.S. $2 million) to $4 million (U.S. $3 million) in each of the next five years.

The minimum repayments of long-term debt, other than the capital leases, in the next five years will be $62 million in 2000 and $428 million in 2001.

Interest on long-term debt was $103 million in 1997 (1996 – $101 million, 1995 – $81 million).

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

15. DEFERRED CREDITS AND OTHER LIABILITIES

	1997	1996
Future removal and site restoration costs	$ 145	$ 144
Post retirement benefits	111	107
Long-term liabilities	65	70
	$ 321	$ 321

16. SHAREHOLDERS' EQUITY

	1997	1996
Common and variable voting shares	$ 1 211	$ 1 208
Contributed surplus	2 572	2 572
Retained earnings (deficit)	139	(88)
	$ 3 922	$ 3 692

The authorized share capital of the Company is comprised of an unlimited number of:
(a) Preferred shares issuable in series designated as Senior Preferred Shares
(b) Preferred shares issuable in series designated as Junior Preferred Shares
(c) Common and variable voting shares

The common share capital is comprised of two classes of common equity: common shares which may be held only by residents of Canada and variable voting shares which may be held only by non-residents of Canada. The common shares and the variable voting shares differ only in their voting entitlements. The common shares carry one vote per share. The variable voting shares carry between one vote per share to one-third of one vote per share, depending on the number of variable voting shares outstanding compared to the number of voting shares outstanding. If the number of variable voting shares exceeds 25% of the public float of voting shares, the vote per variable voting share decreases so that the variable voting shares as a class do not carry more than 25% of the aggregate outstanding votes attached to all voting shares in the public float.

Changes in common and variable voting shares were as follows:

	1997		1996	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance at beginning of year	270 728 387	$ 1 208	246 719 043	$ 802
Issued for cash	—	—	23 732 385	403
Issued for cash under stock option plan	279 145	3	276 959	3
Balance at end of year	271 007 532	$ 1 211	270 728 387	$ 1 208

The Company has granted options to purchase shares under the terms of stock option plans. Stock options outstanding as at December 31, 1997 were as follows:

EXPIRY DATE	OPTION PRICE	NUMBER OF SHARES
July 3, 2001	$ 13.00	614 962
July 29, 2002	8.125	298 900
December 31, 2002	15.75	482 400
March 18, 2003	7.875	253 200
March 2, 2004	13.625	171 140
March 1, 2005	11.50	202 660
January 31, 2006	16.25 - 17.70	750 980
January 30, 2007	20.05 - 24.90	1 283 100

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

17. PENSION PLANS

The Company maintains pension plans with defined benefit and defined contribution provisions. The defined benefit provisions are generally based upon years of service and average salary during the final years of employment. Certain defined benefit options require employee contributions and the balance of the funding for the registered plans is provided by the Company, based upon the advice of an independent actuary. Under the defined contribution provision, the Company's annual contribution is 5% of each participating employee's pensionable earnings. The pension assets are held primarily in equity, fixed income and other marketable securities.

PENSION EXPENSE

	1997	1996	1995
Current service cost	$ 23	$ 23	$ 24
Interest cost	67	66	64
Actual return on plan assets	(117)	(109)	(109)
Net amortization and deferral	38	39	44
	$ 11	$ 19	$ 23
PENSION FUNDING	$ 9	$ 23	$ 35

FINANCIAL STATUS OF DEFINED BENEFIT PENSION PLANS

	1997	1996
Actuarial value of assets	$ 879	$ 803
Pension obligation	801	754
Net pension asset	$ 78	$ 49

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 10 years.

As at December 31, 1997 $789 million (1996 – $741 million) of the pension obligation was vested.

DEFINED BENEFIT PLAN ASSUMPTIONS

	1997	1996	1995
Discount rate	9.0%	9.0%	9.0%
Long-term rate of return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase, excluding merit increases	3.0%[1]	5.0%	4.5%

1 Increasing to 5.5% in 1999 and thereafter.

18. RELATED PARTY TRANSACTIONS

Transactions with the Government of Canada (which holds 18% of the Company's issued shares at December 31, 1997), its agencies and other related parties, are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

As at December 31, 1997 officers and employees owed the Company $2 million (1996 – $3 million) in relation to stock purchase plans.

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 1997 the fair value and the related method of determination along with the carrying value of the Company's financial instruments were as follows:

CASH AND SHORT-TERM INVESTMENTS

The fair value of cash and short-term investments approximates the carrying amount of these instruments due to their short maturity.

LONG-TERM DEBT AND NOTES PAYABLE – HIBERNIA

The fair value of long-term debt and Notes Payable - Hibernia is based on publicly quoted market values.

DERIVATIVE INSTRUMENTS

The fair value of derivative instruments is based on quotes provided by brokers.

	CARRYING AMOUNT	FAIR VALUE
Cash and short-term investments	$ 75	$ 75
Long-term debt and Notes Payable – Hibernia[1]	(1 741)	(1 991)
Derivative instruments	—	(7)

1 Excludes translation adjustment of $145 million (Note 12).

20. DERIVATIVE INSTRUMENTS

CRUDE OIL AND PRODUCTS

The downstream business segment has bought forward crude oil contracts to reduce exposure to margin fluctuations on fixed-price product sales and to reduce the exposure on short-term price fluctuations on the purchase of foreign and domestic crude oil and refined products.

NATURAL GAS

The Company has entered into basis swap contracts to balance term, location and price exposure in order to reduce the overall effect of natural gas price volatility. As at December 31, 1997 the Company has sold forward 2 140 million cubic feet of natural gas production at an average price of U.S. $1.20 per thousand cubic feet in order to reduce the Company's exposure to natural gas price fluctuations. The Company has bought forward and sold forward natural gas in order to convert a portion of its 1998 natural gas purchases and sales contracts from fixed to variable price.

CURRENCY

The Company has reduced its exposure to exchange rate movements between the Canadian and United States dollars by entering into forward contracts and option collars. As at December 31, 1997 the Company had contracts for U.S. $363 million notional principal related to estimated 1998 net currency exposure and U.S. $25 million notional principal related to the estimated 1999 net currency exposure.

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

20. DERIVATIVE INSTRUMENTS (CONTINUED)

The Company's outstanding contracts for derivative instruments and related unrealized gains (losses) were as follows:

DECEMBER 31, 1997	QUANTITY OR NOTIONAL PRINCIPAL	AVERAGE PRICE[1]	UNREALIZED GAINS (LOSSES)	MATURITY
CRUDE OIL AND PRODUCTS (millions of barrels)				
Crude oil – downstream	8.8	$ 27.20	$ —	1998
Products – downstream	0.8	26.44	1	1998
			1	
NATURAL GAS (millions of cubic feet)				
Natural gas – bought	3 804	1.83	(1)	1998
Natural gas – sold	2 140	1.71	—	1998
Natural gas – swaps	9 730	n.a.	(2)	1999
			(3)	
CURRENCY				
Forwards		1.3945	(3)	1998
Collars	393	1.3839 - 1.4408[2]	(2)	1998/1999
			(5)	
			$ (7)	

DECEMBER 31, 1996	QUANTITY OR NOTIONAL PRINCIPAL	AVERAGE PRICE[1]	UNREALIZED GAINS (LOSSES)	MATURITY
CRUDE OIL AND PRODUCTS (millions of barrels)				
Crude oil – downstream	1.4	$ 30.25	$ 3	1997
Heating oil margin - sold	2.8	5.00	—	1997
			3	
NATURAL GAS (millions of cubic feet)				
Natural gas – bought	8 882	1.47	6	1997
Natural gas – sold	12 853	1.75	(2)	1997
			4	
CURRENCY	$ 137	1.3261	(3)	1997
INTEREST RATES	$ 88		(2)	1997
			$ 2	

1 Canadian dollars per barrel, per thousand cubic feet or per U.S. dollar, as applicable.
2 Represents the weighted average Canadian call and put strike prices, respectively.

Derivative instruments involve a degree of credit risk which the Company controls through the establishment of credit policies and limits and the selection of financially sound counterparties. Market risk relating to changes in value or settlement cost of the Company's derivative instruments is essentially offset by gains or losses on the hedged positions.

21. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company has leased property and equipment under various long-term operating leases for periods up to 2015. The minimum annual rentals for non-cancellable operating leases are estimated at $81 million in 1998, $68 million in 1999, $54 million in 2000, $42 million in 2001, $34 million in 2002 and $14 million per year thereafter until 2015.

(b) The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

22. COMPARATIVE FIGURES

Certain reclassifications have been made to the 1996 and 1995 comparative figures to conform with the current year's presentation.

23. EVENT SUBSEQUENT TO DECEMBER 31, 1997

In January 1998 the Company signed a memorandum of understanding with Ultramar Diamond Shamrock Corporation to form a refining and marketing joint venture. The Company will contribute its refining and marketing assets to the joint venture, which will operate as a Canadian general partnership, for a 64% ownership interest and 51% of the voting units in the joint venture.

The formation of the joint venture is subject to regulatory review, including approval by the Government of Canada's Competition Bureau, completion of due diligence and signing definitive agreements. When the joint venture is formed, the Company will record a charge to earnings for its share of the costs of establishing the joint venture and integrating assets in the joint venture and the costs of the resulting reorganization of the Company.

24. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") IN THE UNITED STATES

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which differ in some respects from those applicable in the United States. The following are the significant differences in accounting principles as they pertain to the accompanying consolidated financial statements.

(a) The Company follows the deferral method of accounting for income taxes. Under United States GAAP the use of the liability method would be required.

(b) The Company has deferred unrealized gains and losses on translation of long-term debt payable in foreign currencies for amortization over the remaining term of the debt. Under United States GAAP gains or losses on the translation of long-term debt payable in foreign currencies would be credited or charged to earnings with no deferral.

(c) United States GAAP requires that interest be capitalized as part of the cost of certain assets while they are being prepared for their intended use. The Company does not capitalize interest on all such assets.

(d) The Company has transferred amounts from contributed surplus to the accumulated deficit. Under United States GAAP these transfers would not have occurred.

(e) The Company uses the proportionate consolidation method of accounting for its investments in joint ventures. Under United States GAAP certain of these investments would be accounted for on the equity method. This difference in accounting does not affect net earnings.

(TABULAR AMOUNTS STATED IN MILLIONS OF CANADIAN DOLLARS)

24. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP") IN THE UNITED STATES (CONTINUED)

The application of United States GAAP would have the following effects on earnings as reported:

	1997	1996	1995
Net earnings as reported in the consolidated statement of earnings	$ 306	$ 247	$ 196
Adjustments, net of applicable income taxes			
Accounting for income taxes	(10)	(33)	20
Foreign currency translation	(26)	7	23
Capitalization of interest and related amortization	16	17	19
Other	(1)	(3)	(1)
Net earnings, as adjusted	$ 285	$ 235	$ 257
Net earnings per share, as adjusted	$ 1.05	$ 0.90	$ 1.04

The application of United States GAAP would have the following effects on the consolidated balance sheets as reported:

	AS REPORTED	INCREASE (DECREASE)	UNITED STATES GAAP
DECEMBER 31, 1997			
Current assets	$ 1 577	$ (19)	$ 1 558
Property, plant and equipment, net	6 441	449	6 890
Deferred charges and other assets	320	(97)	223
Current liabilities	1 192	(11)	1 181
Long-term debt	1 488	(156)	1 332
Deferred income taxes	1 165	517	1 682
Contributed surplus	2 572	1 122	3 694
Retained earnings (deficit)	139	(1 139)	(1 000)
DECEMBER 31, 1996			
Current assets	$ 1 475	$ (16)	$ 1 459
Property, plant and equipment, net	6 014	483	6 497
Deferred charges and other assets	280	(64)	216
Current liabilities	1 363	(7)	1 356
Long-term debt	1 350	(157)	1 193
Deferred income taxes	793	563	1 356
Contributed surplus	2 572	1 122	3 694
Retained earnings (deficit)	(88)	(1 118)	(1 206)

NET RESERVES OF CRUDE OIL AND NATURAL GAS BEFORE ROYALTIES

Proved reserves of crude oil and liquids decreased by 20 million barrels in 1997 to 432 million barrels. Major positive changes included the booking of eight million barrels at Hibernia, discoveries and extensions of eight million barrels in Western Canada conventional and an upward revision of seven million barrels at Syncrude. Offsetting the positive changes were sales of 11 million barrels of minor Western Canada properties and production of 34 million barrels.

Proved reserves of natural gas decreased by 66 billion cubic feet to 2 519 billion cubic feet. Major positive changes included the addition of 331 billion cubic feet from discoveries, extensions, revisions and improved recovery and purchases of 63 billion cubic feet from several Western Canada transactions. Offsetting these positive changes were sales of 183 billion cubic feet of minor Western Canada properties and production of 277 billion cubic feet.

Based on the reserve estimates of participants, 123 million barrels of initial proved plus probable reserves before royalties are attributed to Petro-Canada's 20 per cent interest in Hibernia. Additional reserves at Hibernia, Veslefrikk and Njord in the North Sea, will be booked when appropriate during the production phases of these projects. No reserves have yet been booked for Terra Nova or other Grand Banks discoveries, or for Algerian discoveries at Hassi Imoulaye and Timellouline. A two-million-barrel writedown of Algerian Tamadanet reserves was taken in 1997.

NET PROVED DEVELOPED AND UNDEVELOPED RESERVES BEFORE ROYALTIES [2,3]	CRUDE OIL AND FIELD NATURAL GAS LIQUIDS (MILLIONS OF BARRELS)					NATURAL GAS[4] (BILLIONS OF CUBIC FEET)
	WESTERN PROVINCES	CONVENTIONAL INTERNATIONAL[4,5]	CONVENTIONAL GRAND BANKS	SYNTHETIC CRUDE OIL[1]	CONVENTIONAL TOTAL	
BEGINNING OF YEAR 1995	151	—	—	260	411	2 061
Revisions of previous estimates	—	—	—	14	14	29
Sale of reserves in place	(1)	—	—	—	(1)	(10)
Purchase of reserves in place	4	—	—	—	4	30
Discoveries, extensions and improved recovery	9	15	—	—	24	154
Production	(20)	—	—	(9)	(29)	(199)
END OF YEAR 1995	143	15	—	265	423	2 065
Revisions of previous estimates	3	(2)	—	—	1	13
Sale of reserves in place	(12)	—	—	—	(12)	(42)
Purchase of reserves in place	54	14	—	—	68	592
Discoveries, extensions and improved recovery	8	—	—	—	8	217
Production	(23)	(4)	—	(9)	(36)	(260)
END OF YEAR 1996	173	23	—	256	452	2 585
Revisions of previous estimates	2	(2)	—	7	7	51
Sale of reserves in place	(11)	—	—	—	(11)	(183)
Purchase of reserves in place	1	—	—	—	1	63
Discoveries, extensions and improved recovery	8	1	8	—	17	280
Production	(21)	(4)	—	(9)	(34)	(277)
END OF YEAR 1997	152	18	8	254	432	2 519

1 Reserves of synthetic crude oil are based on a gross production rate at Syncrude of approximately 210 000 barrels per day to the year 2025.

2 Net proved developed and undeveloped reserves before royalties are Petro-Canada's working interest in reserves before the deduction of Crown or other royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production. No reserve quantities have been included to reflect royalty interests Petro-Canada has in various properties.

3 Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those proved reserves that are expected to be recovered from existing wells or facilities. Proved undeveloped reserves are proved reserves which are not recoverable from existing wells or facilities, but which are expected to be recovered through additional development drilling or through the upgrading of existing or additional new facilities.

4 International reserves comprise seven million barrels of oil in Algeria and 10 million barrels of oil in Norway and nine billion cubic feet of natural gas.

5 After deduction of a 20 per cent royalty, Petro-Canada receives crude oil to recover costs incurred on behalf of Petro-Canada and SONATRACH, the Algerian state oil company. The remaining production is shared between Petro-Canada and SONATRACH, varying with the level of production. The total share accruing to Petro-Canada cannot exceed 49 per cent of the gross production volumes.

OIL AND GAS LANDHOLDINGS (GROSS/NET)[1]
(millions of acres)

	DEVELOPED[2]				UNDEVELOPED[2]				TOTAL			
	1997		1996		**1997**		1996		**1997**		1996	
	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET
CANADA												
Mainland Canada	**3.1**	**1.6**	3.2	1.5	**2.8**	**1.8**	3.1	1.8	**5.9**	**3.4**	6.3	3.3
Oil Sands	—	—	—	—	**0.7**	**0.2**	0.7	0.2	**0.7**	**0.2**	0.7	0.2
East Coast Offshore[3]	**0.1**	—	—	—	**1.4**	**0.3**	0.4	0.1	**1.4**	**0.3**	0.4	0.1
Other Frontier[4]	—	—	—	—	**7.2**	**6.1**	7.2	6.1	**7.2**	**6.1**	7.2	6.1
INTERNATIONAL[5]	—	—	—	—	**2.1**	**2.0**	2.1	2.0	**2.1**	**2.0**	2.1	2.0
PETRO-CANADA TOTAL	**3.2**	**1.6**	3.2	1.5	**14.2**	**10.4**	13.5	10.2	**17.3**	**12.0**	16.7	11.7

1 Gross acres includes the interests of others, while net acres excludes the interests of others.

2 Developed lands are areas capable of production. Undeveloped lands are areas with rights to explore.

3 East Coast Offshore landholdings do not include parcels acquired at the December 1997 Newfoundland land sale because licenses were not issued until 1998. These licenses cover acreage of 0.3 million gross acres, 0.1 million net to Petro-Canada.

4 Exploration is not currently permitted in the eastern Arctic or off the west coast of Canada.

5 International landholdings are in Algeria and Norway.

PRINCIPAL RESERVE AND PRODUCTION LOCATIONS

CONVENTIONAL CRUDE OIL

FIELDS	PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1997 (MILLIONS OF BARRELS)	PER CENT OF TOTAL PROVED RESERVES	AVERAGE 1997 DAILY PRODUCTION BEFORE ROYALTIES (THOUSANDS OF BARRELS)	PER CENT OF TOTAL 1997 OIL PRODUCTION
Valhalla, Alberta	20.5	18	9.9	23
Pembina, Alberta	18.6	16	2.9	7
Ferrier, Alberta	18.5	16	3.1	7
Boundary Lake, British Columbia	8.8	8	1.8	4
Bellshill Lake, Alberta	8.0	7	4.8	11
Willesden Green, Alberta	5.1	5	1.3	3
Sturgeon Lake, Alberta	4.4	4	2.3	5
Shekilie, Alberta	3.6	3	0.9	2
Cactus Lake, Saskatchewan	3.2	3	1.5	3
Wapiti, Alberta	2.8	2	1.2	3
Other	20.0	18	13.6	32
TOTAL	113.5	100	43.3	100

NATURAL GAS

FIELDS	PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1997 (BILLIONS OF CUBIC FEET)	PER CENT OF TOTAL PROVED RESERVES	AVERAGE 1997 DAILY PRODUCTION BEFORE ROYALTIES (MILLIONS OF CUBIC FEET)	PER CENT OF TOTAL 1997 GAS PRODUCTION
Hanlan, Alberta	306	12	86	11
Wildcat Hills, Alberta	270	11	46	6
Jedney, Beg and Bubbles, B.C.	227	9	45	6
Ricinus/Bearberry, Alberta	186	8	101	13
Fort St. John, British Columbia	158	6	35	5
Clarke Lake, British Columbia	135	5	45	6
Gilby, Alberta	123	5	33	4
Brazeau, Alberta	108	4	43	6
Laprise, British Columbia	104	4	30	4
Medicine Hat, Alberta	100	4	30	4
Other	793	32	266	35
TOTAL	2 510	100	760	100

The reserves and production data in these tables do not include natural gas liquids.

REFINING BY LOCATIONS

Petro-Canada owns and operates three refineries, in Edmonton, Montreal and Oakville, Ontario. The refineries produce a full slate of refined petroleum products, including gasolines, diesel fuels, heating oils, aviation fuels, asphalts and petrochemical feedstocks. The Company also owns and operates a lubricants plant in Mississauga, Ontario, which produces base oils, motor oils and specialty lubricants and greases, using feedstock from the Oakville and Montreal refineries.

(THOUSANDS OF CUBIC METRES)			AVERAGE VOLUMES OF CRUDE OIL PROCESSED PER CALENDAR DAY		DAILY RATED CAPACITY AS AT DECEMBER 31[1]
	1997	1996	1995	1994	**1997**
Edmonton, Alberta	**19.0**	18.5	17.5	17.3	**18.4**
Montreal, Quebec	**14.3**	13.9	13.0	12.2	**14.2**
Oakville, Ontario	**13.4**	12.6	11.5	12.6	**12.8**
Total	**46.7**	45.0	42.0	42.1	**45.4**

1 Daily rated capacity is based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery process required. Variations in these factors may result in actual capacity being higher or lower than rated capacities.

FIVE-YEAR FINANCIAL AND OPERATING SUMMARY[1]

(STATED IN MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)

	1997	1996	1995	1994	1993
CONSOLIDATED					
Revenue	$ 6 096	$ 5 607	$ 4 820	$ 4 758	$ 4 629
Expenses	5 460	5 111	4 450	4 322	4 295
Unusual item	—	—	—	51	—
Provision for income taxes	330	249	174	225	174
Net earnings	$ 306	$ 247	$ 196	$ 262	$ 160
Cash flow	1 263	863	705	701	631
Total assets	8 338	7 769	6 488	6 076	5 696
Average capital employed	5 406	5 019	4 202	3 929	3 710
Operating return on capital employed[2]					
(in 1995, before organizational restructuring charge, per cent)	6.9	6.2	7.0	7.0	5.8
Return on capital employed (per cent)[2]	6.8	6.2	5.9	8.1	5.8
Cash flow return on capital employed (per cent)[2]	24.5	18.5	18.0	19.3	18.5
Debt	1 741	1 709	1 381	1 259	1 205
Debt to debt plus equity (per cent)	30.7	31.6	30.9	29.9	30.7
Debt to cash flow (times)	1.4	2.0	2.0	1.8	1.9
Expenditures on property,					
plant and equipment and exploration	1 049	959	853	702	609
Employees (number at year end)					
Petro-Canada	4 716	4 664	4 567	4 871	5 029
Subsidiaries	1 033	1 015	1 079	1 338	2 290
Total	5 749	5 679	5 646	6 209	7 319
SHAREHOLDERS' DATA					
Weighted average number of common and					
variable voting shares outstanding (millions)	270.9	262.3	246.7	246.7	246.5
Shares outstanding at year end (millions)	271.0	270.7	246.7	246.7	246.5
Publicly held shares at year end (millions)	221.6	221.3	197.3	73.4	73.3
Share prices (dollars)[3]					
– at year end	26.00	19.35	15¾	11⅜	12
– range during the year	18.90-29.85	15.63-20.60	10⅞-15⅞	10¾-14⅞	7¼-14
Shares traded (millions)[4]	271.1	112.7	65.4	45.6	83.7
Book value per share (dollars)	14.47	13.64	12.53	11.94	11.04
UPSTREAM SECTOR					
Earnings from operations	$ 188	$ 192	$ 153	$ 153	$ 114
(Losses) gains on asset sales	(2)	4	6	19	1
Unusual item	—	—	—	21	—
Net earnings	$ 186	$ 196	$ 159	$ 193	$ 115
Cash flow	900	655	477	448	376
Expenditures on property,					
plant and equipment and exploration					
Exploration and development	$ 503	$ 380	$ 240	$ 209	$ 183
Hibernia development	143	142	239	234	165
Other	159	127	108	84	66
	$ 805	$ 649	$ 587	$ 527	$ 414

(STATED IN MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)

	1997	1996	1995	1994	1993
UPSTREAM SECTOR (CONTINUED)					
DAILY PRODUCTION (net, before royalties)					
Crude oil and field liquids (thousands of barrels)	95.1	97.3	79.4	73.3	79.8
Natural gas (excluding injectants, millions of cubic feet)	760	712	546	540	562
Ethane and natural gas liquids production from straddle plants (thousands of barrels)	39.6	34.9	37.5	36.8	40.8
Average sales prices					
Crude oil and field liquids (dollars per barrel)	25.49	27.20	21.69	19.60	18.83
Natural gas (dollars per thousand cubic feet)[5]	1.85	1.61	1.32	1.92	1.74
PROVED RESERVES (net, before royalties)					
Crude oil and field liquids (millions of barrels)	432	452	423	411	389
Natural gas (trillions of cubic feet)	2.5	2.6	2.1	2.1	2.3
OIL AND GAS LANDHOLDINGS (gross/net) (millions of acres)	17.3/12.0	16.7/11.7	14.3/10.4	18.4/14.5	20.3/15.3
WELLS DRILLED (gross/net)					
Oil	127/65	118/82	112/69	129/90	165/100
Natural gas	145/82	141/73	161/98	160/89	196/87
Oil sands	—	—	—	—	2/1
Dry	34/21	39/17	29/13	34/14	24/10
Total	306/168	298/172	302/180	323/193	387/198
PROPANE					
Propane sales (millions of litres)	1 065	1 180	1 126	1 148	1 213
DOWNSTREAM SECTOR					
Earnings from operations	$ 225	$ 130	$ 160	$ 136	$ 112
(Losses) gains on asset sales	(6)	(3)	1	2	2
Net earnings	$ 219	$ 127	$ 161	$ 138	$ 114
Cash flow	415	243	305	295	291
Expenditures on property, plant and equipment	215	282	254	169	190
Petroleum product sales (thousands of cubic metres per day)	48.5	43.7	41.6	41.5	41.3
Retail outlets at year end	1 780	1 765	1 871	2 029	2 220
Refinery crude capacity at year end (thousands of cubic metres per day)	45.4	45.4	45.4	45.1	45.1
Average refinery utilization (per cent)[6]	103	99	93	93	79

1 Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.
2 Capital employed is defined as the total of shareholders' equity and debt, less the stated translation adjustment.
3 Share prices are for trading on The Toronto Stock Exchange.
4 Total shares traded on the Toronto, Montreal, New York, Vancouver and Alberta stock exchanges.
5 Average gas price is before deduction of British Columbia gathering and processing charges.
6 Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.

QUARTERLY FINANCIAL AND STOCK TRADING INFORMATION

(UNAUDITED, STATED IN MILLIONS OF DOLLARS UNLESS OTHERWISE INDICATED)

	1997 FIRST QUARTER	1997 SECOND QUARTER	1997 THIRD QUARTER	1997 FOURTH QUARTER	1996 FIRST QUARTER	1996 SECOND QUARTER	1996 THIRD QUARTER	1996 FOURTH QUARTER
REVENUE								
Operating	$ 1 651	$ 1 402	$ 1 474	$ 1 490	$ 1 267	$ 1 284	$ 1 334	$ 1 629
Investment and other income	3	42	18	16	13	36	10	34
	1 654	1 444	1 492	1 506	1 280	1 320	1 344	1 663
EXPENSES								
Crude oil and product purchases	886	729	789	779	671	679	747	891
Producing, refining and marketing	322	337	336	357	296	315	321	325
General and administrative	51	55	53	35	50	46	43	48
Exploration	19	19	12	25	14	14	12	20
Depreciation, depletion and amortization	126	120	113	123	87	113	118	122
Taxes other than income taxes	16	20	16	16	19	18	18	15
Interest	28	27	25	26	21	27	28	33
	1 448	1 307	1 344	1 361	1 158	1 212	1 287	1 454
EARNINGS BEFORE INCOME TAXES	206	137	148	145	122	108	57	209
PROVISION FOR INCOME TAXES	102	86	75	67	52	56	33	108
NET EARNINGS	$ 104	$ 51	$ 73	$ 78	$ 70	$ 52	$ 24	$ 101
CASH FLOW	$ 389	$ 288	$ 278	$ 308	$ 207	$ 204	$ 182	$ 270
SEGMENTED EARNINGS								
Earnings from operations								
Upstream	$ 86	$ 24	$ 24	$ 54	$ 52	$ 24	$ 22	$ 94
Downstream	50	54	73	48	38	39	23	30
Shared Services	(27)	(27)	(21)	(24)	(20)	(16)	(19)	(20)
Organizational restructuring	—	—	—	—	—	—	—	—
	109	51	76	78	70	47	26	104
Gains (losses) on asset sales	(5)	—	(3)	—	—	5	(2)	(3)
Net earnings	$ 104	$ 51	$ 73	$ 78	$ 70	$ 52	$ 24	$ 101
SHARE INFORMATION								
(dollars per share)								
Net earnings	0.38	0.19	0.27	0.29	0.28	0.20	0.08	0.38
Cash flow	1.44	1.06	1.03	1.13	0.84	0.78	0.67	1.00
Dividends paid	0.05	0.05	0.08	0.08	0.05	0.05	0.05	0.05
Share price[1]								
– High	21.90	25.40	26.95	29.85	17¼	18.40	18.70	20.60
– Low	19.25	18.90	22.25	23.90	15⅝	16.65	16.85	16.90
– Close (end of period)	20.00	22.40	25.35	26.00	16⅞	16.95	17.40	19.35
Shares traded (millions)[2]	112.1	46.1	44.5	68.4	18.4	24.0	22.4	47.9
Installment receipts[1]								
– High	17.60	—	—	—	9⅜	10.15	13.30	16.30
– Low	15.00	—	—	—	7¾	8.45	8.50	12.60
– Close (end of period)	16.25	—	—	—	8¾	8.70	13.15	15.05
Receipts traded (millions)[2]	89.2	—	—	—	57.3	42.9	29.4	42.5

1 Share and receipt prices are for trading on The Toronto Stock Exchange.

2 Total traded on the Toronto, Montreal, New York, Vancouver and Alberta stock exchanges.

PETRO-CANADA'S OUTSTANDING SHARES

At December 31, 1997, Petro-Canada's public float was 221.6 million shares, comprised of 175.5 million common shares held by residents of Canada, and 46.1 million variable voting shares held by non-residents of Canada.

TRANSFER AGENT AND REGISTRAR

In Canada, Petro-Canada's transfer agent and registrar is CIBC Mellon Trust Company. Share certificates may be transferred at CIBC Mellon's corporate offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Questions relating to share certificates, dividends and estate settlements should be directed to CIBC Mellon's corporate offices in Calgary:

CIBC Mellon Trust Company
600 The Dome Tower
333 – 7th Avenue S.W.
Calgary, Alberta, Canada T2P 2Z1
Telephone toll free: (800) 387-0825
Fax: (416) 813-0796
Email: enquiries@cibcmellon.ca
Website at http://www.cibcmellon.ca

In the United States, Petro-Canada's transfer agent and registrar is ChaseMellon Shareholder Services, L.L.C., which can be contacted at:

ChaseMellon Shareholder Services, L.L.C.
85 Challenger Road
Overpeck Center
Ridgefield Park, NJ 07660
Telephone toll free: (800) 387-0825
Fax: (416) 813-0796
Email: enquiries@cibcmellon.ca
Website at http://www.cibcmellon.ca

ANNUAL MEETING

The annual meeting of shareholders will be held at 11:00 a.m. local time on Tuesday, April 28, 1998 at:
Crystal Ballroom,
Palliser Hotel
133-9th Avenue S.W.
Calgary, Alberta

STOCK EXCHANGE LISTINGS AND SYMBOLS

Toronto, Montreal, New York, Vancouver, Alberta and Winnipeg
Canadian exchanges: PCA
New York: PCZ

DIVIDENDS

Petro-Canada's Board of Directors has adopted a policy of paying quarterly dividends of $0.08 ($0.32 per annum) per share. The Board reviews the dividend policy in light of the Company's financial position, its financing requirements for growth and other factors.

Dividends are normally paid on or about the first working day of the months of January, April, July and October. The record dates are normally set approximately four weeks ahead of the dividend payment date. Dividends can be deposited directly to shareholders' bank accounts. If this service is desired, please contact the transfer agent and registrar.

INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATIONS

Petro-Canada's Investor Relations staff may be contacted by writing to or calling:

Petro-Canada Investor Relations
P.O. Box 2844
Calgary, Alberta, Canada T2P 3E3
Telephone: (403) 296-4040
Fax: (403) 296-3061
Email: investor@petro-canada.ca
Visit our website at
http://www.petro-canada.ca

INFORMATION FOR INVESTORS OUTSIDE OF CANADA

Dividends and interest payments made to residents in countries with which Canada has a bilateral tax treaty are subject to Canadian non-resident withholding tax of 15 per cent. The majority of countries are in this category. For U.S. residents, these rates were reduced in 1996 to 10 per cent on dividends and six per cent on interest. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. Estate taxes or succession duties are not levied by any level of government in Canada. (This summary is not intended as tax advice; shareholders may wish to consult a tax advisor with respect to particular circumstances).

DUPLICATE REPORTS

While we try to avoid duplicate mailings of annual reports and other shareholder materials, shareholders with more than one unregistered account may receive duplicates. Registered shareholders with more than one account may contact the transfer agent and registrar to eliminate duplicate mailings.

Board of Directors

Thomas E. Kierans
Chairman of the Board
Petro-Canada
President and
Chief Executive Officer
C.D. Howe Institute
Toronto, Ontario

James M. Stanford
President and
Chief Executive Officer
Petro-Canada
Calgary, Alberta

Angus A. Bruneau[1]
Chairman
Fortis Inc.
St. John's, Newfoundland

Gail Cook-Bennett[1]
Vice Chair
Bennecon Ltd.
Etobicoke, Ontario

John F. Cordeau[1]
Partner
Bennett Jones Verchere
Barristers and Solicitors
Calgary, Alberta

Purdy Crawford
Chairman
Imasco Limited
Toronto, Ontario

Claude Fontaine[1]
Senior Partner
Ogilvy Renault
Barristers and Solicitors
Verdun, Quebec

Brian F. MacNeill
President and
Chief Executive Officer
IPL Energy Inc.
Calgary, Alberta

Gerald J. Maier
Chairman
TransCanada PipeLines Limited
Calgary, Alberta

Guylaine Saucier[1]
Chairman, Board of Directors
Canadian Broadcasting
Corporation
Montreal, Quebec

William W. Siebens
President and
Chief Executive Officer
Candor Investments Ltd.
Calgary, Alberta

Senior Officers

Thomas E. Kierans
Chairman of the Board

James M. Stanford
President and
Chief Executive Officer

Norman F. McIntyre
Executive Vice-President

James Pantelidis
Executive Vice-President

Wesley R. Twiss
Executive Vice-President

Robert W. McCaskill
Senior Vice-President

from the left:
BOB McCASKILL,
WESLEY TWISS,
NORM McINTYRE,
JIM PANTELIDIS,
JIM STANFORD.

1 Audit Committee member

CONVERSION FACTORS

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production, while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids)	= 6.29 barrels
1 cubic metre (natural gas)	= 35.31 cubic feet
1 litre	= 0.22 imperial gallon
1 hectare	= 2.47 acres

ADDITIONAL PUBLICATIONS

The following publications are available on request from Investor Relations or Corporate Communications:

- Statistical Supplement to the Annual Report, containing 10-year financial information and more detailed operating data.
- Annual Information Form, filed with Canadian securities regulators
- Form 40-F, filed with the U.S. Securities and Exchange Commission
- Interim Reports, which are published about five weeks after the end of the first, second and third quarters
- Petro-Canada's third annual progress report in support of Canada's Climate Change and Voluntary Challenge and Registry Program
- Petro-Canada's Code of Business Conduct

PETRO-CANADA

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http://www.petro-canada.ca

INVESTOR AND ANALYST ENQUIRIES

Investor Relations (403) 296-4040

MEDIA ENQUIRIES

Corporate Communications
(403) 296-4422

Publié également en français

GLOSSARY OF FINANCIAL TERMS AND RATIOS

TERMS

BARREL OF OIL EQUIVALENT: Natural gas production (excluding injectants) is converted using 10 000 cubic feet of gas for one barrel of oil.
CAPITAL EMPLOYED: Total assets excluding the translation adjustment on long-term debt, less current liabilities, excluding current portion of long-term debt and Notes Payable – Hibernia.
CASH FLOW: Cash flow from operations before changes in non-cash working capital items.
DEBT: Notes Payable – Hibernia and long-term debt including current portion.
EARNINGS FROM OPERATIONS: Earnings before gains (losses) on asset sales and unusual items, net of income taxes.
OPERATING EXPENSES: Producing, refining and marketing expenses.
OVERHEAD EXPENSES: General and administrative expenses.

RATIOS

CASH FLOW RETURN ON CAPITAL EMPLOYED: Cash flow plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.
CURRENT RATIO: Current assets divided by current liabilities. Reflects the Company's short-term liquidity and its ability to pay short-term debts.
DEBT TO CASH FLOW: Debt divided by cash flow. Indicates the Company's ability to discharge its outstanding debt.
DEBT TO DEBT PLUS EQUITY: Debt divided by debt plus equity. Indicates the relative amount of debt in the Company's capital structure. Measures financial strength.
OPERATING RETURN ON CAPITAL EMPLOYED: Earnings from operations plus after-tax interest expense divided by average capital employed. Measures operating earnings relative to the asset base.
RETURN ON CAPITAL EMPLOYED: Net earnings plus after-tax interest expense divided by average capital employed. Measures net earnings relative to the asset base.

The annual report was printed on paper containing at least 50 per cent waste fibre, including a minimum of 20 per cent post-consumer waste. Inks are based on linseed oil and contain no heavy metals. The printing process was alcohol-free. Volatile organic compounds associated with printing were reduced 50 to 75 per cent from the levels which would have been produced using traditional inks and processes.


PETRO-CANADA